

Hawaii's Economic Future

Credit Union Accountants
December 16, 2011



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Hawaii State Department of Business, Economic Development & Tourism

<http://hawaii.gov/dbedt>

Overview

- ▶ State of the Economy
- ▶ Long-Term Headwinds
- ▶ A New Day in Hawaii Plan
- ▶ Implications

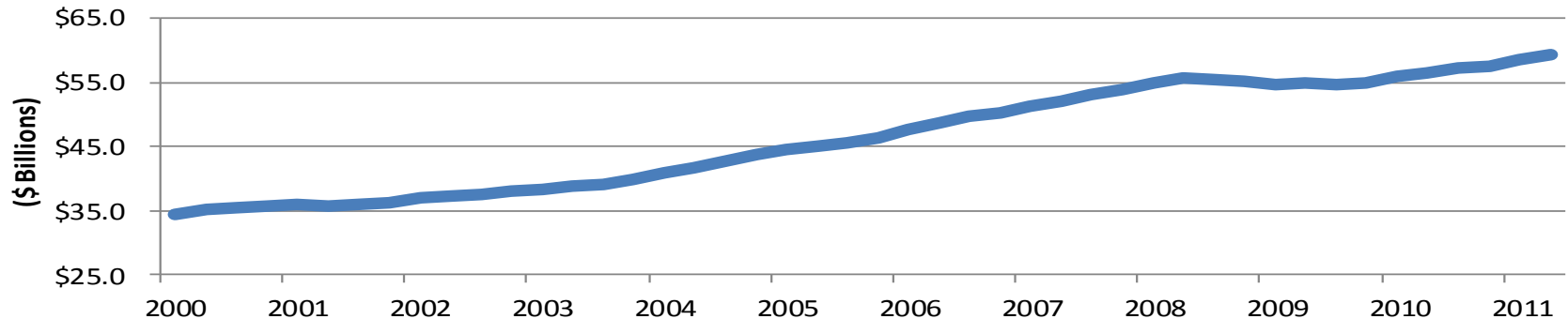
State of the Economy

» Update on Hawaii's economic conditions

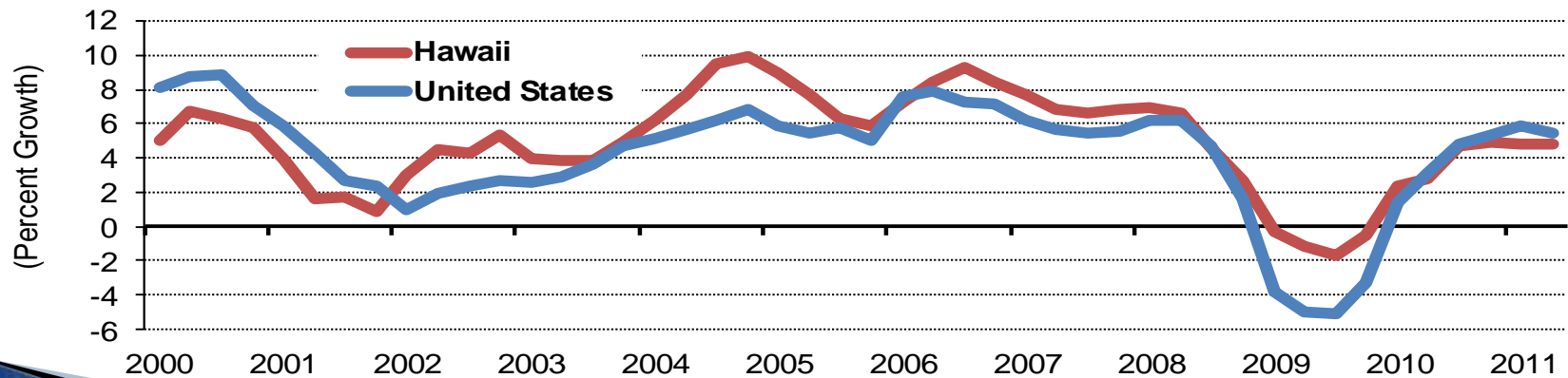
Personal Income

Personal income growth increased in 2010 after a slight dip in 2009

Hawaii Quarterly Personal Income: 2000 Q1 to 2011 Q2



Quarterly Personal Income Growth: 2000 Q1 to 2011 Q2

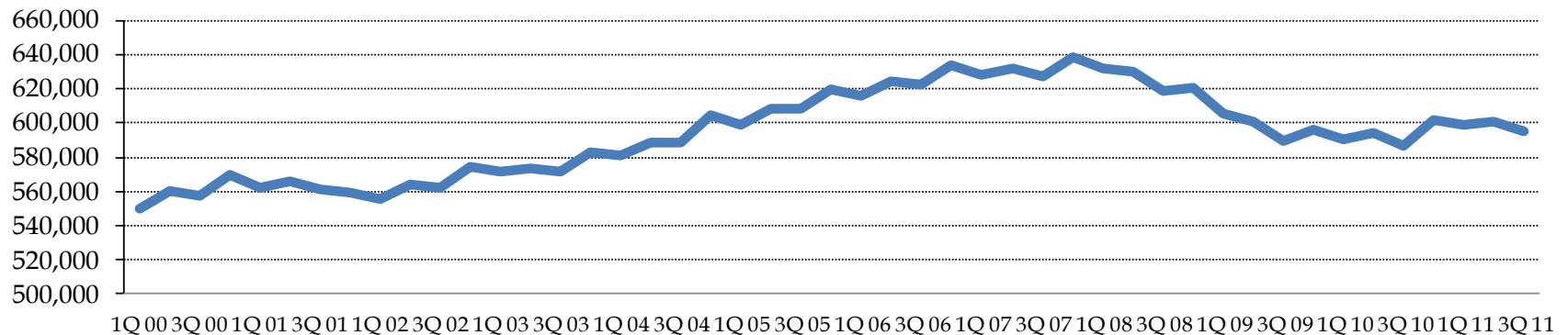


Source: U.S. Department of Commerce, Bureau of Economic Analysis

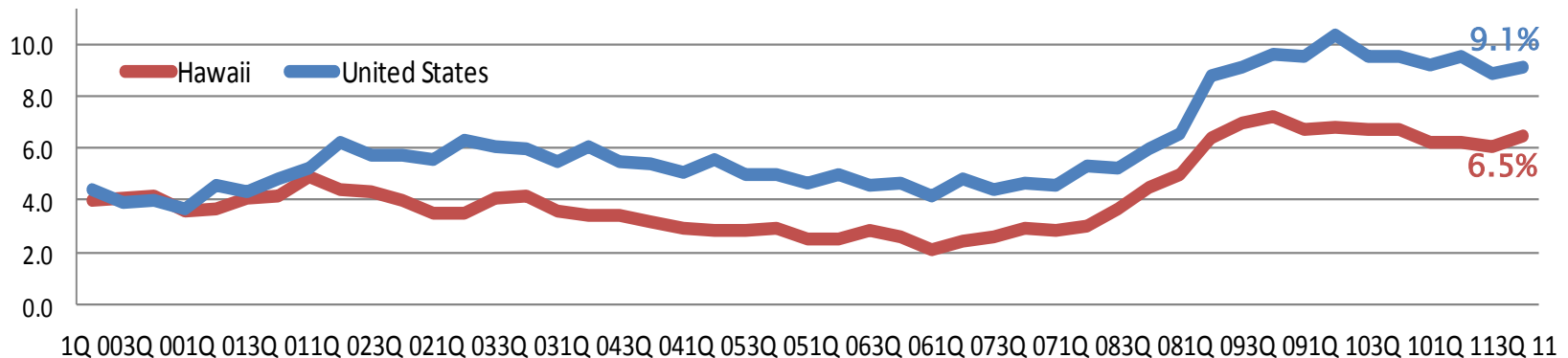
Job Count / Unemployment Rates

During the first 9 Months of 2011, job count increased 1.3% and the unemployment rate averaged 6.3%, which is ranked the 9th lowest in the nation

Wage and Salary Jobs – 1Q 2000 to 3Q 2011



Unemployment Rates – 1Q 2000 to 3Q 2011

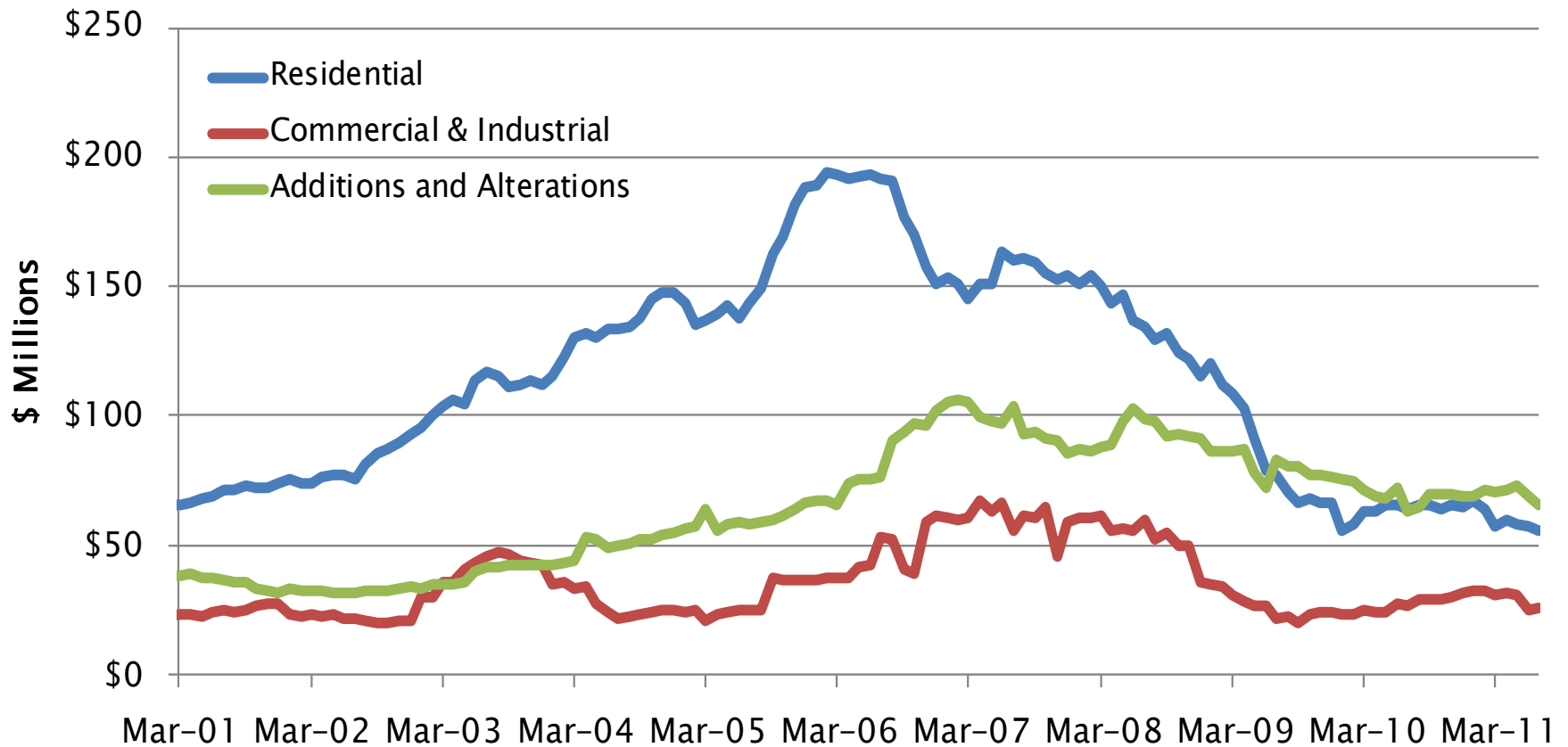


Source: Hawaii Department of Labor & Industrial Relations and U.S. Bureau of Labor Statistics

Private Construction Activity

Private Construction Activity Has Been Flat since the beginning of 2010

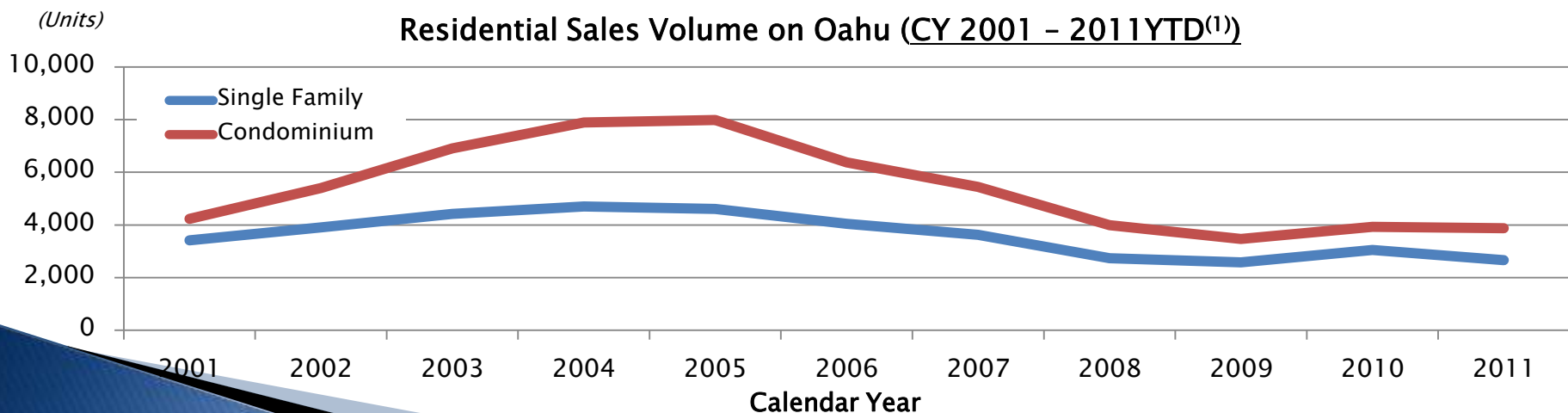
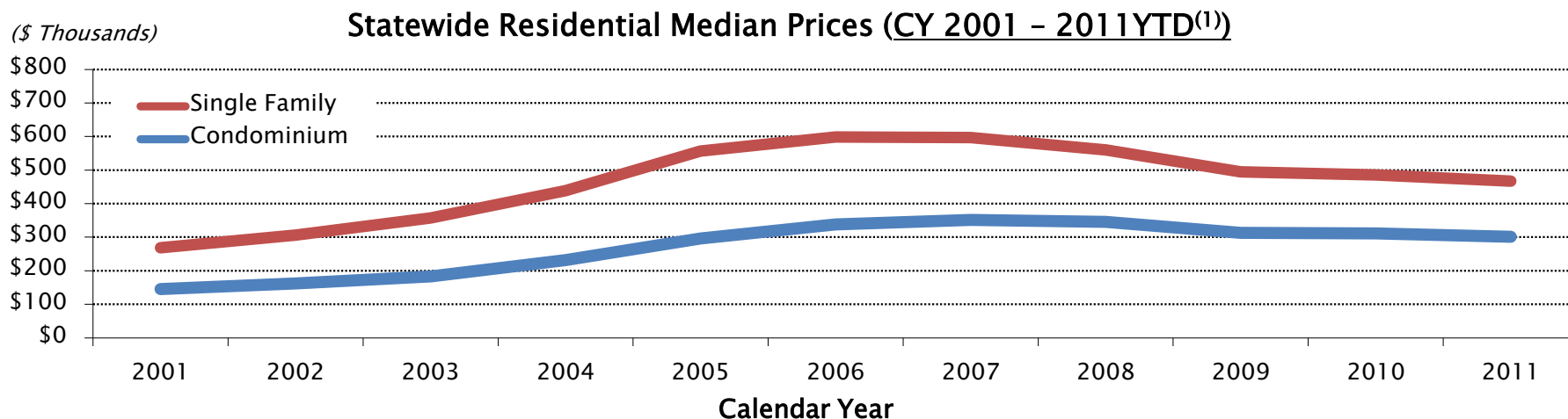
12-Month Moving Average of Building Authorization Components*



*Additions and Alterations and Commercial & Industrial data do not include Kauai. All data through July 2011.
Source: County building departments

Housing Market

Hawaii's residential real estate market has stabilized



Source: Prudential Locations LLC.

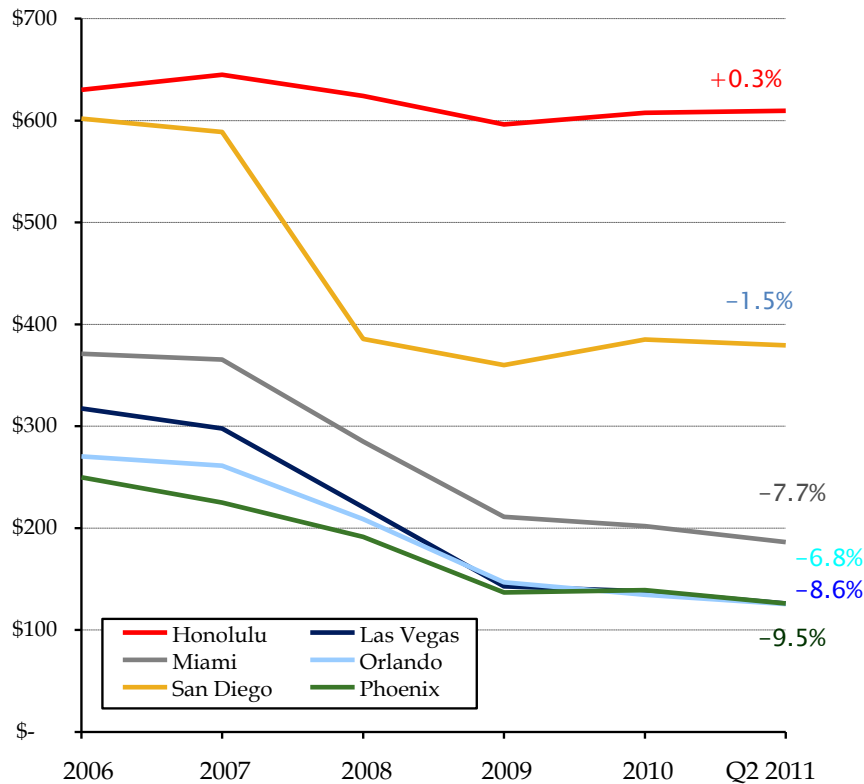
(1) Through September 2011, sales volume figure adjusted to reflect a full year.

Housing Trends

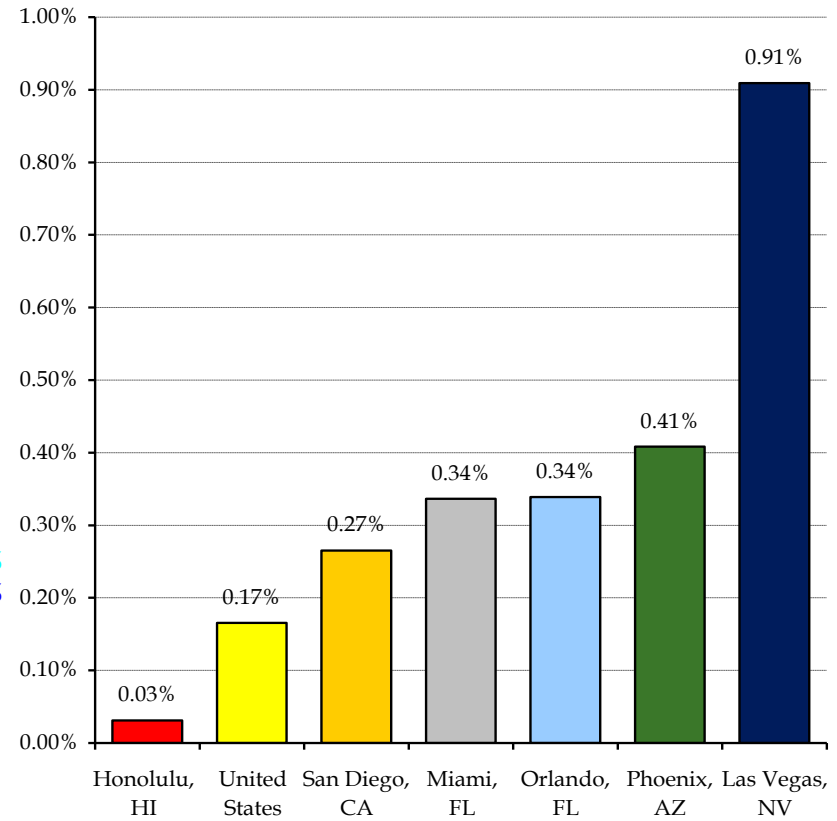
Honolulu's home prices have proven resilient compared to other major markets and its foreclosure rates are among the lowest in the nation

**Median Single Family Home Prices
(CY 2006 - Q2 2011)(1)**

(\$ thousands)

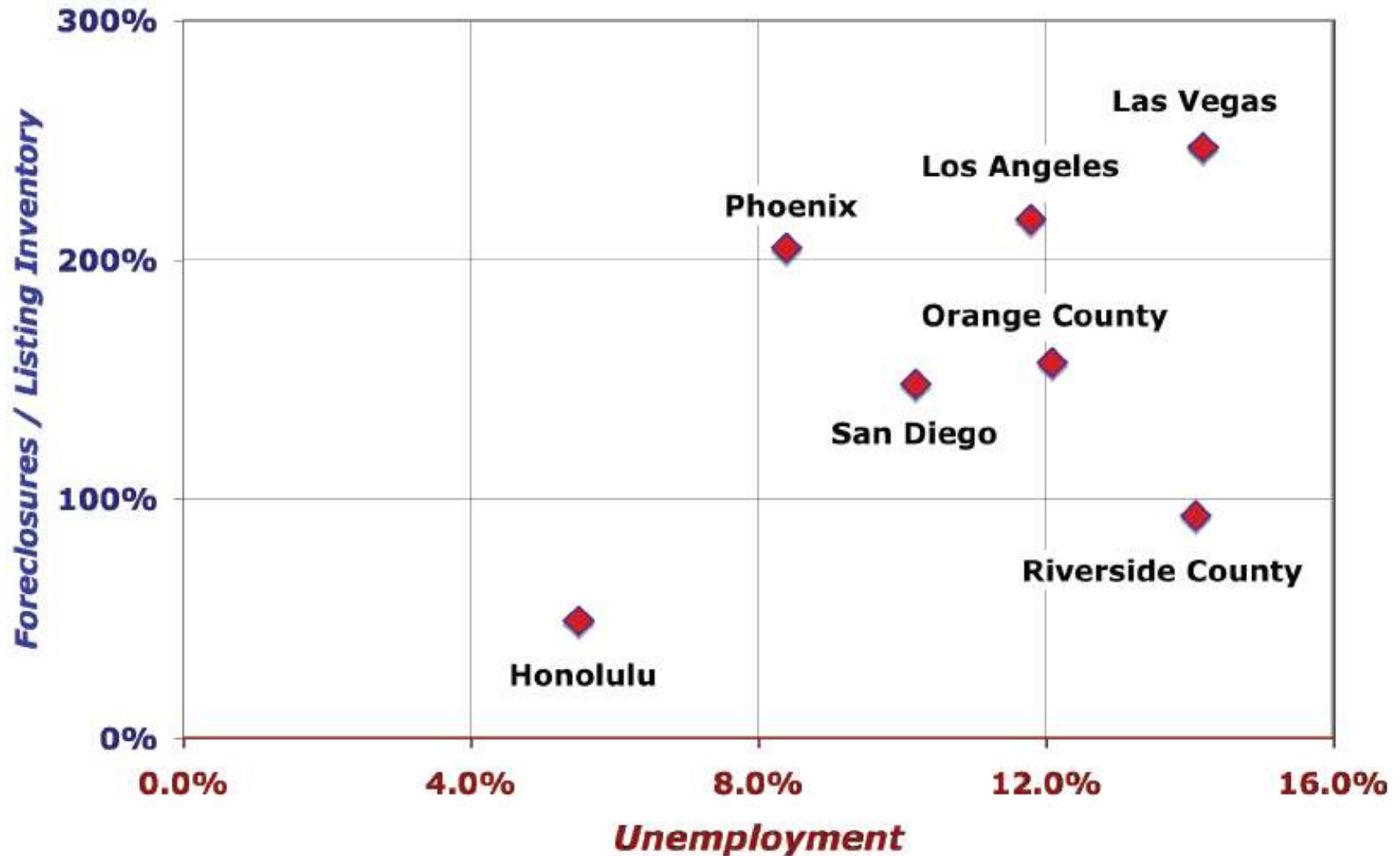


**Comparative Foreclosure Rates
(As of September 2011)(2)**

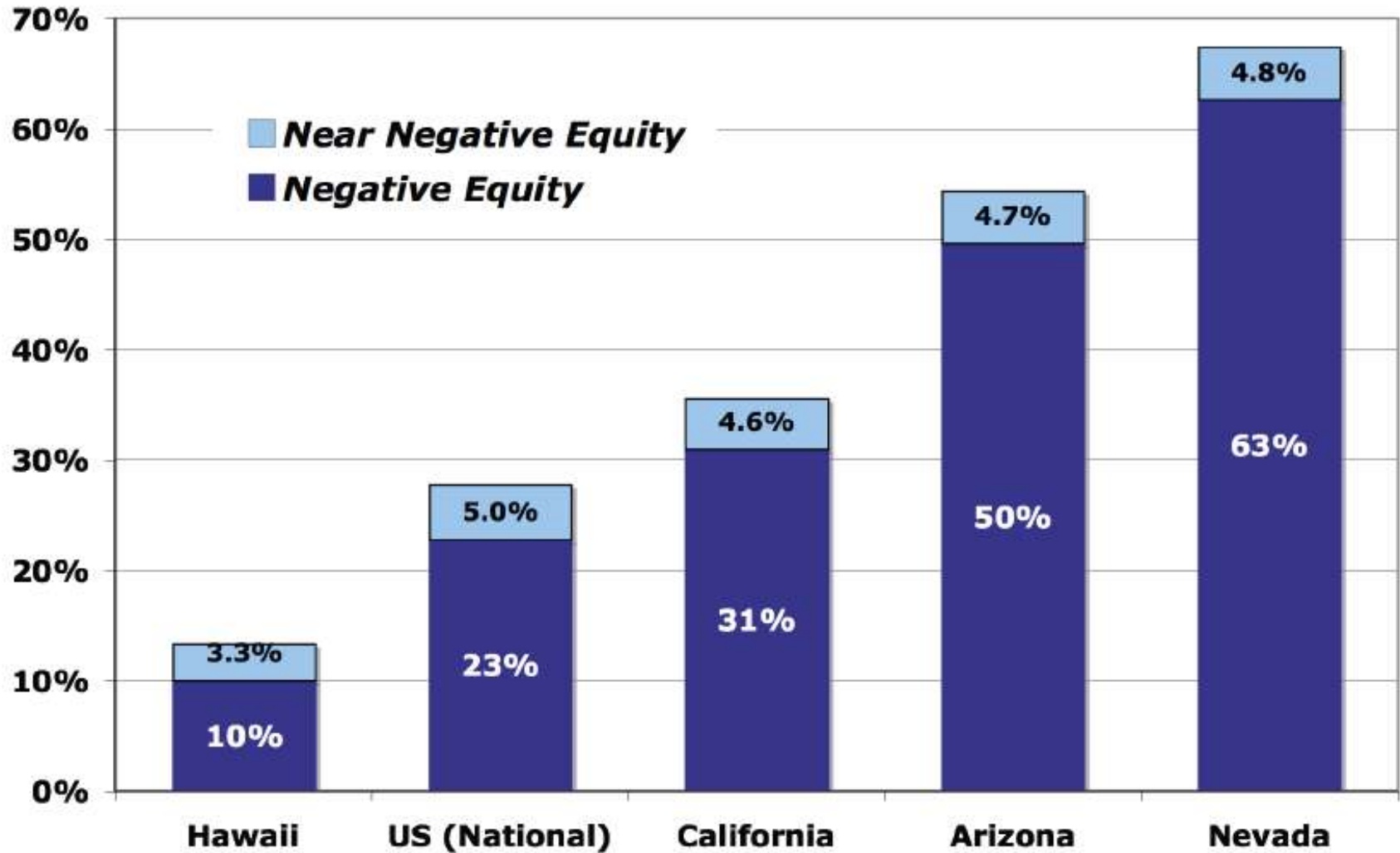


(C. Percentage change indicates Q2 2011 versus same period in
(

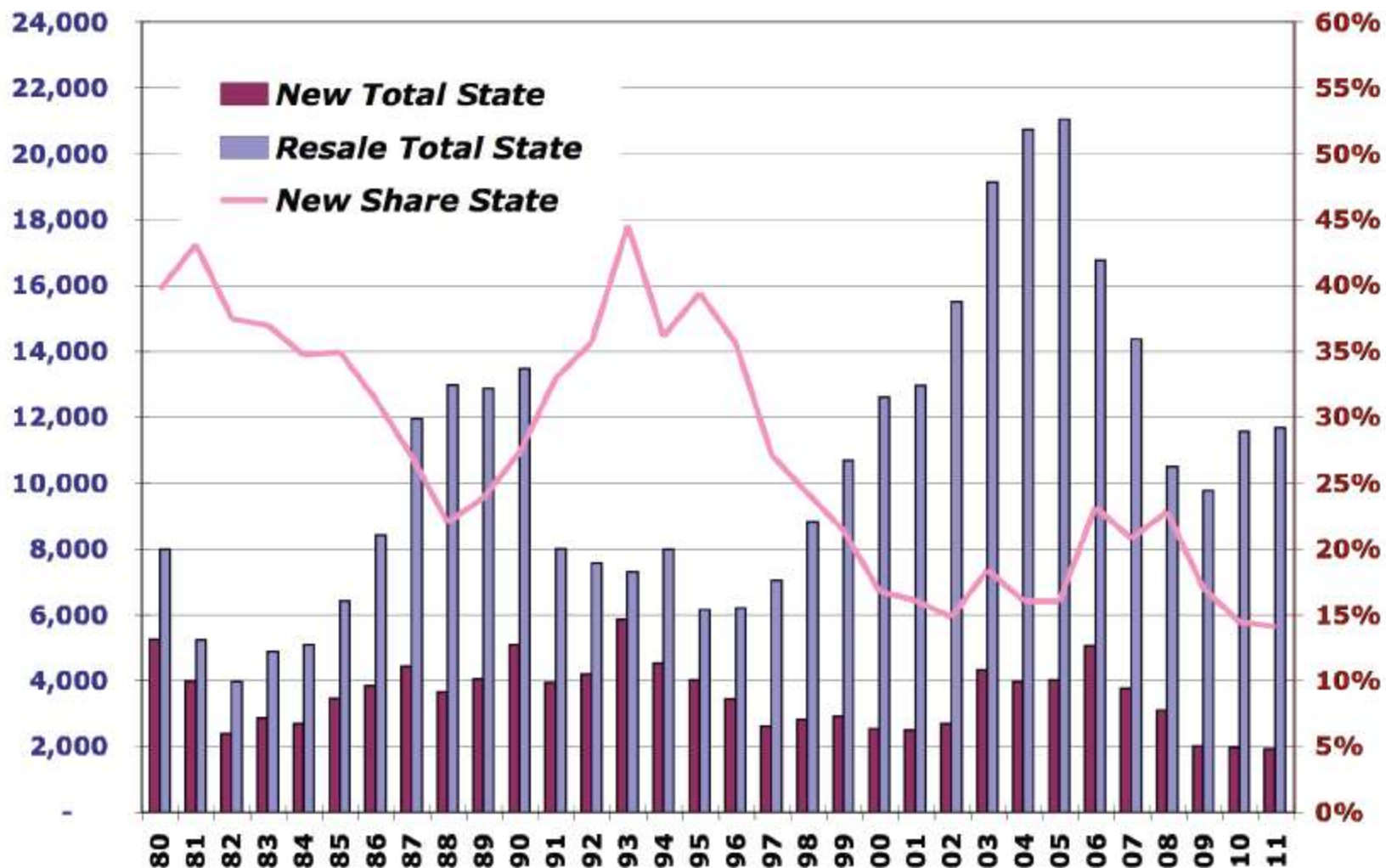
Unemployment vs. Forced Sales



Negative Household Equity

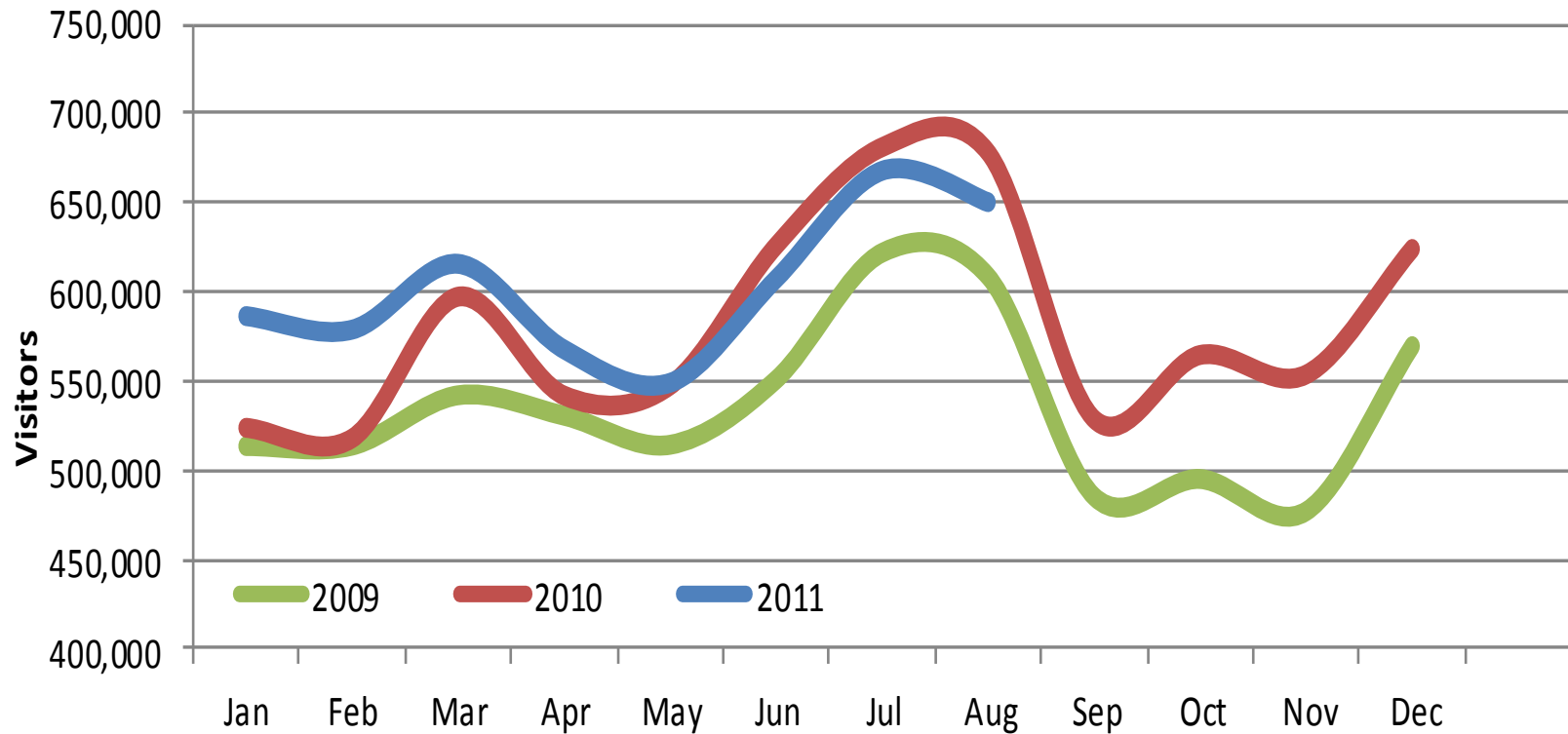


Developer Share of Market



Visitor Activity

Visitor arrivals continued rebound during first 8 months of 2011.



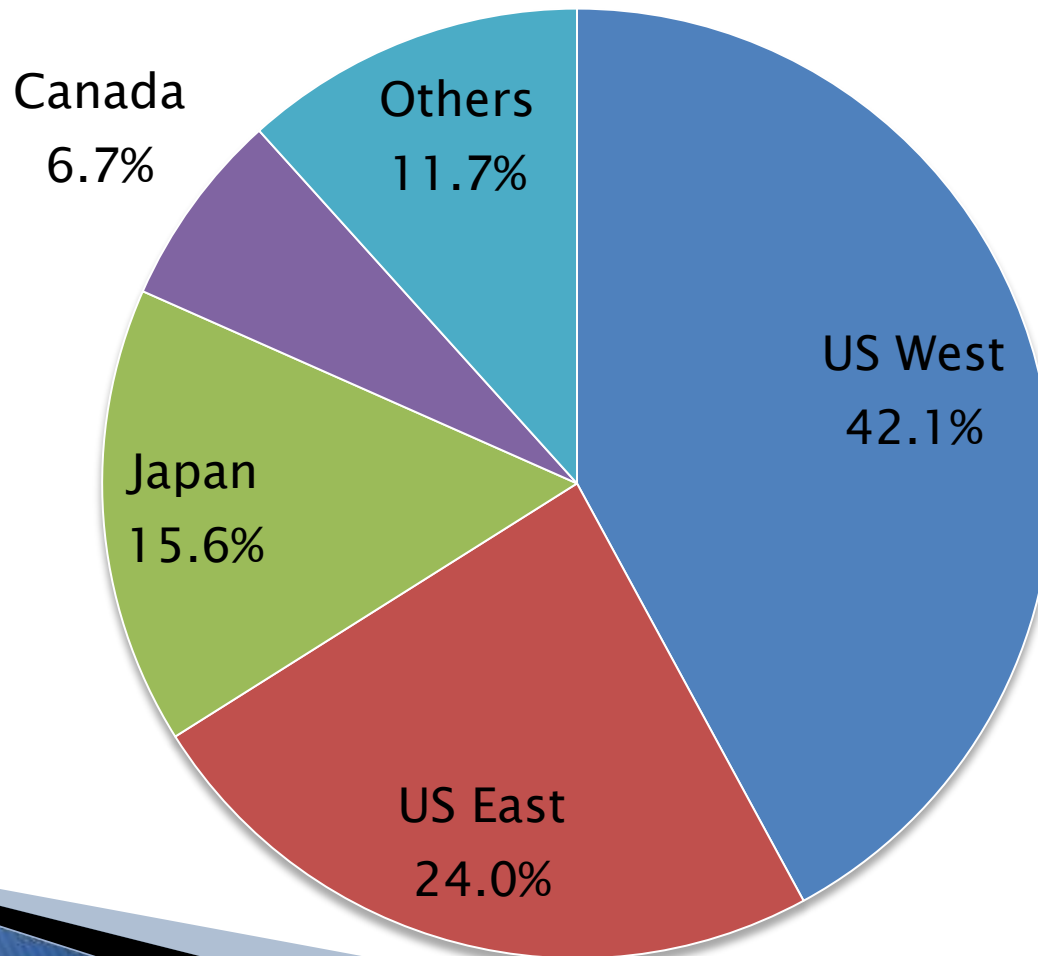
During first 8 months of 2011, visitor arrivals by air increased 2.3% and visitor spending jumped 14.1% from the same period in 2010

Source: Hawai'i State Department of Business, Economic Development and Tourism, and Hawaii Tourism Authority.

Total Visitor Arrivals By Major Market

First 8 Months of 2011

66.1% of Hawaii Visitors Were From the U.S., Japanese Visitors Accounted for 15.6%.



International Visitor Spending

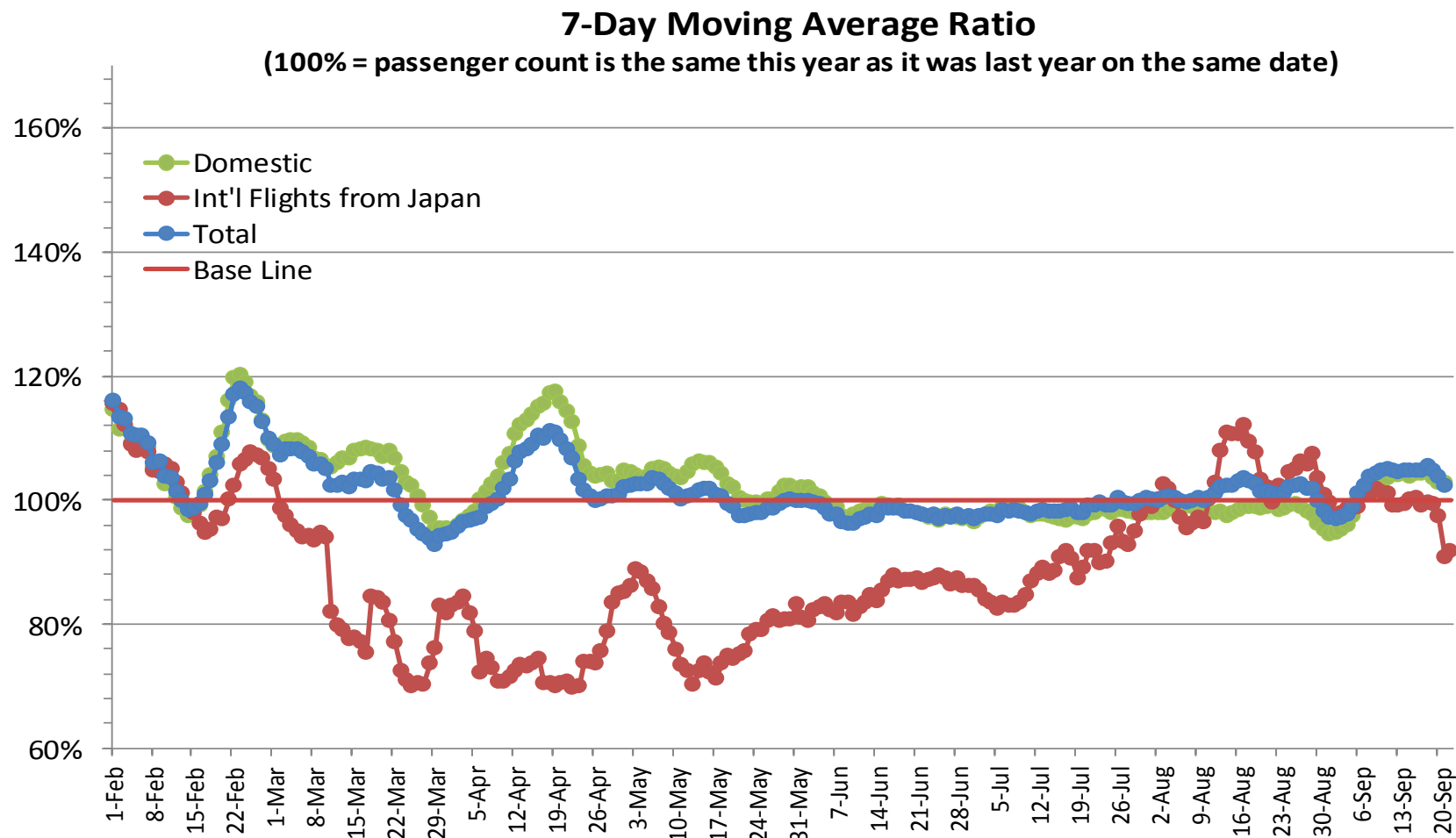
First 8 Months of 2011

International Visitors Accounted For 39.4% of Total Visitor Spending

Market	Arrivals	Length of Stay (Days)	Daily Spending (\$)	Total Expenditure (\$M)
U.S. West	2,029,168	9.56	145.3	2,818.1
U.S. East	1,155,714	10.50	179.4	2,177.5
Japan	751,255	6.07	278.7	1,271.6
Canada	322,885	12.57	153.4	622.3
Other	479,005	10.56	226.8	1,347.8

Passenger Counts

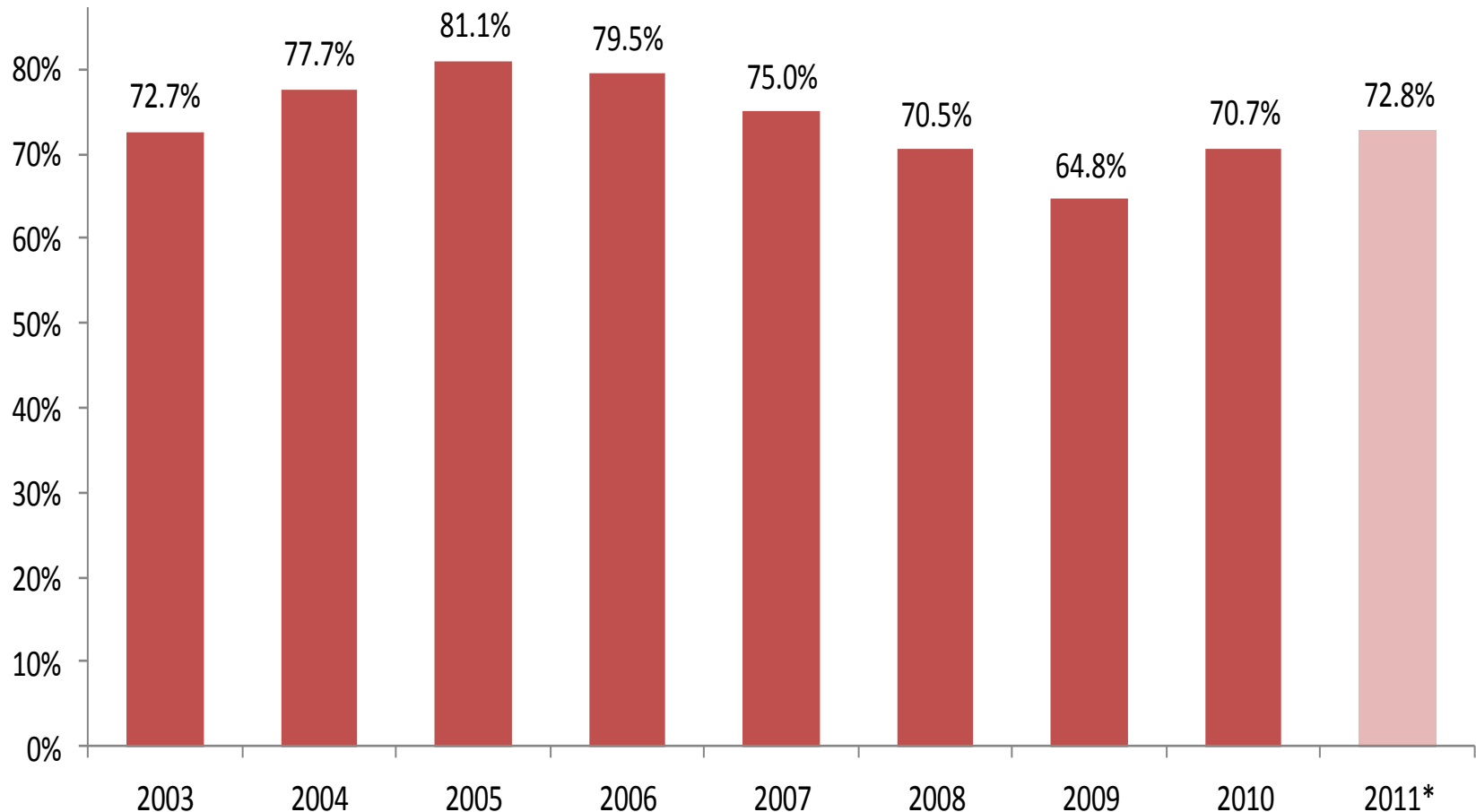
Japanese passenger counts have been recovering since August.



Note: Includes all direct out-of-state flights to the islands, excludes inter-island flights.

Occupancy Rate

Hotel occupancy rate has been recovering through the first 6 Months of 2011.



- ▶ Occupancy rate for the first 3 months of 2011 was 77.0%, 6.4 percentage points higher than a year ago.

**First 6 months*

Source: Smith Travel Research, Hospitality Advisors LLC

Average Room Rates

Average room rate has been recovering during the first 6 months of 2011.



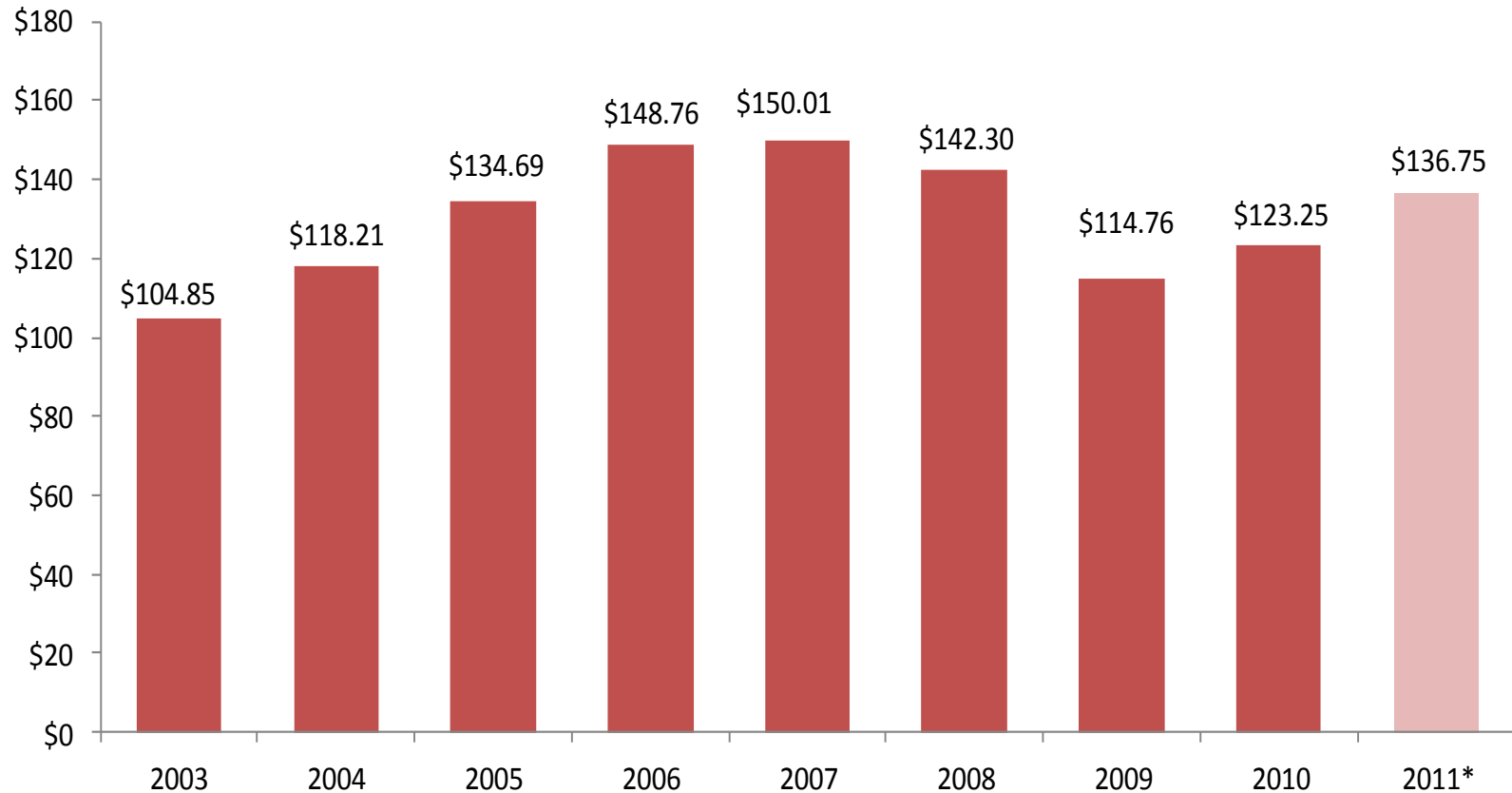
- ▶ Average hotel room rate during first 6 months of 2011 was \$187.84, \$15.59 higher than the same period in 2010.

**First 6 months*

Source: Smith Travel Research, Hospitality Advisors LLC

Average Room Revenue

Revenue per available room has also been recovering during the first 6 months of 2011.



- ▶ Revenue per available room increased to \$136.75 during the first 6 months of 2011, \$17.90 higher than the same period last year

**First 6 months*

Source: Smith Travel Research, Hospitality Advisors LLC

Current Economic Conditions

▶ Wage and salary job count



▶ Personal income growth



▶ Tourism



▶ Real estate prices and sales



▶ Foreclosure



Long-Term Headwinds

»» Long-term challenges facing the State

- Budget
- Demographics
- GET Erosion
- Debt
- National Economy
- Stagnate Anchor Industries

Budget

► Expenses (million) **\$5,700**

- Medicaid \$800
- ERS/EUTF \$1,220
- Education \$1,800
- Health & Human Services \$700
- Debt service \$560

• Everything else **\$620**

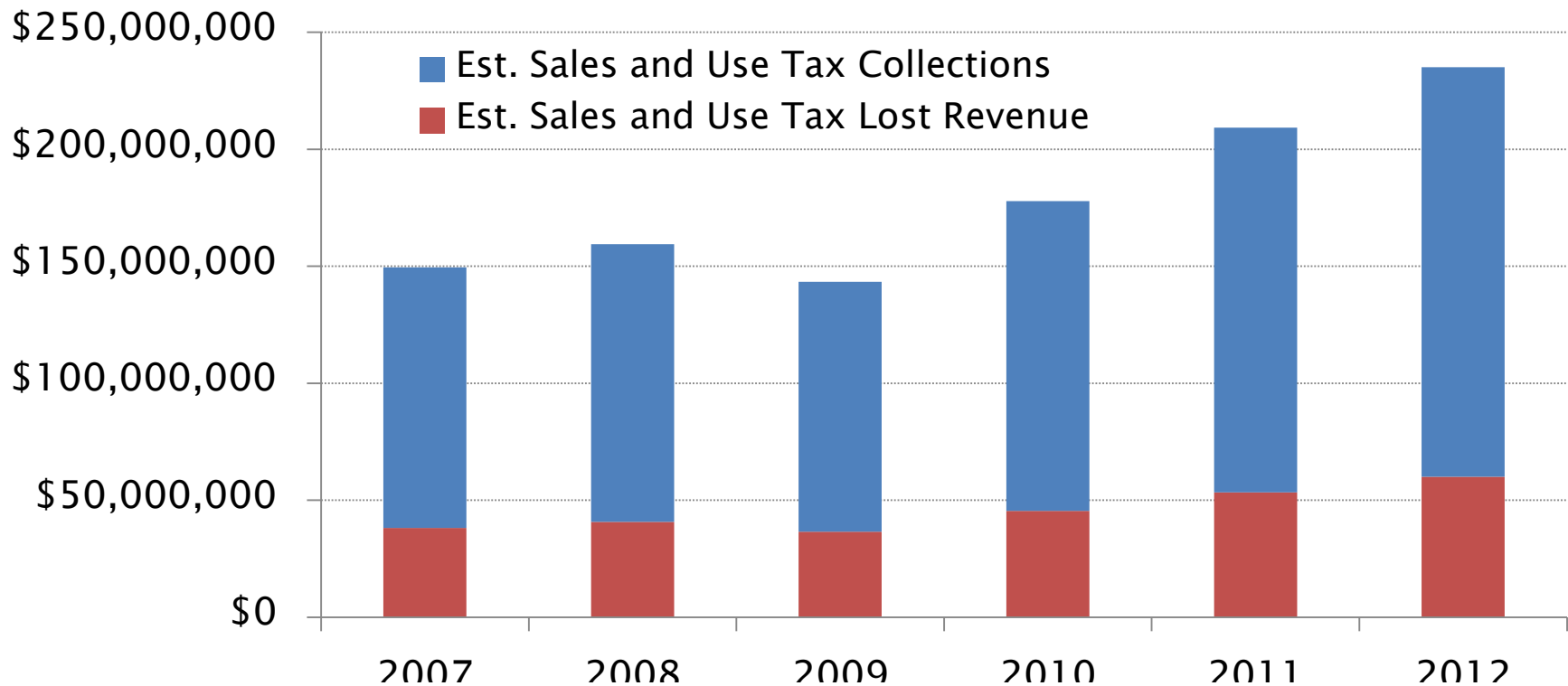
Challenge of Demographics

- ▶ Employee Retirement System
 - 66,000 active workers and 38,000 retirees
 - 2–1 ratio of workers to retirees
 - 13,000 employees vested
 - 1–1 ratio if vested employees retire
- ▶ Combined unfunded liability of ERS and EUTF
>\$21 billion
- ▶ **Debt: 4th highest debt per capita**

State Tax Distribution

Tax Types	Percent of Total State Taxes	
GET	50%	(\$2.495 billion)
Individual Income	23%	(\$1.176 billion)
Transient Accommodations (TAT)	6%	
County Surcharge	4%	
Unemployment	4%	
Fuel	3%	
Public Service Companies	2%	
Corporations	2%	(\$89 Million)
Liquor	<1%	
Rental Vehicle	<1%	

Losses In GET & Use Tax Revenue Are Expected Due To Electronic Commerce

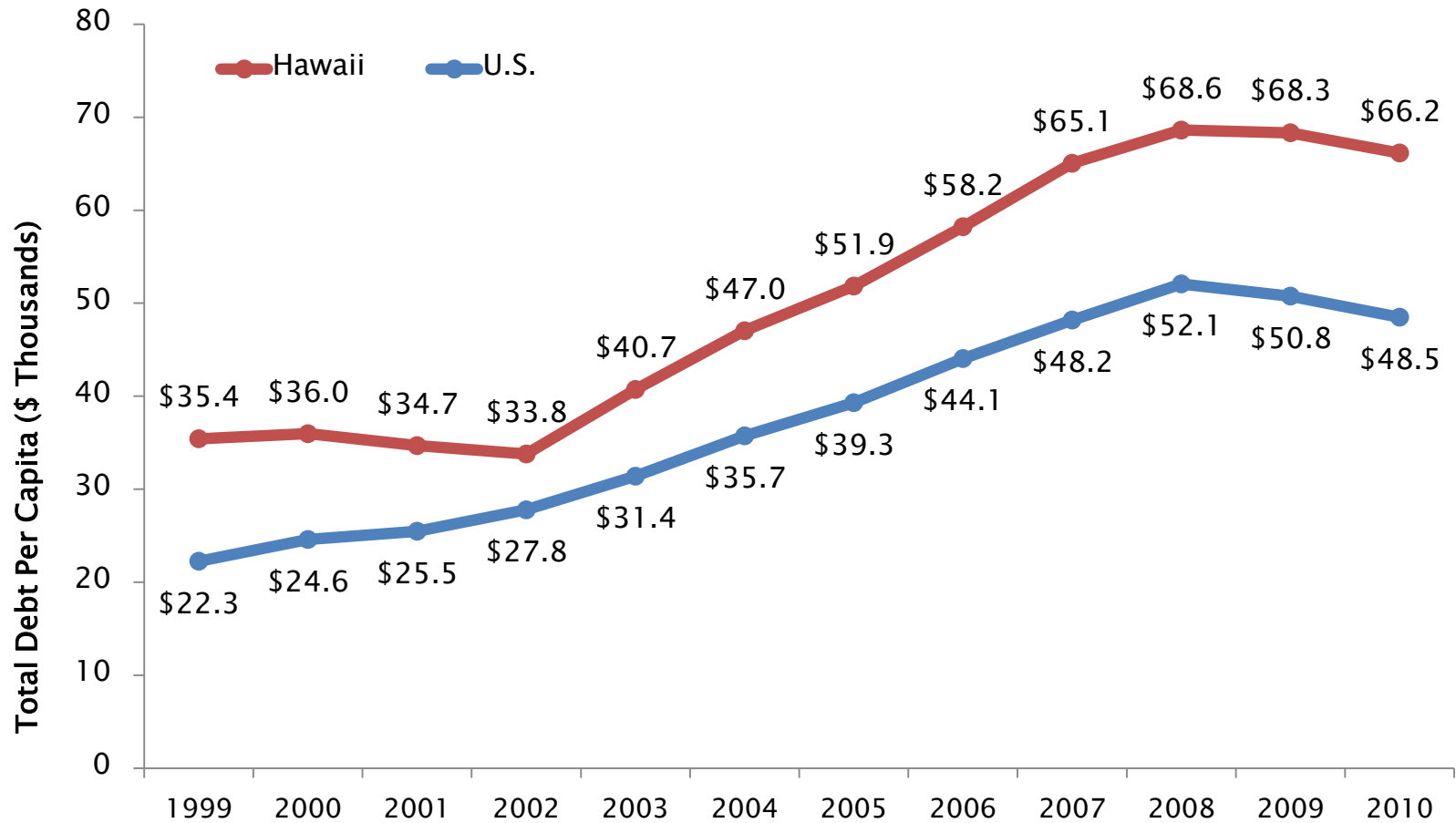


Annual national state and local sales taxes losses on e-commerce will grow to \$11.4 billion in 2012

Donald Bruce, "State and Local Government Sales Tax Revenue Losses from Electronic Commerce", The University of Tennessee (April 13, 2009)

Consumer Debt

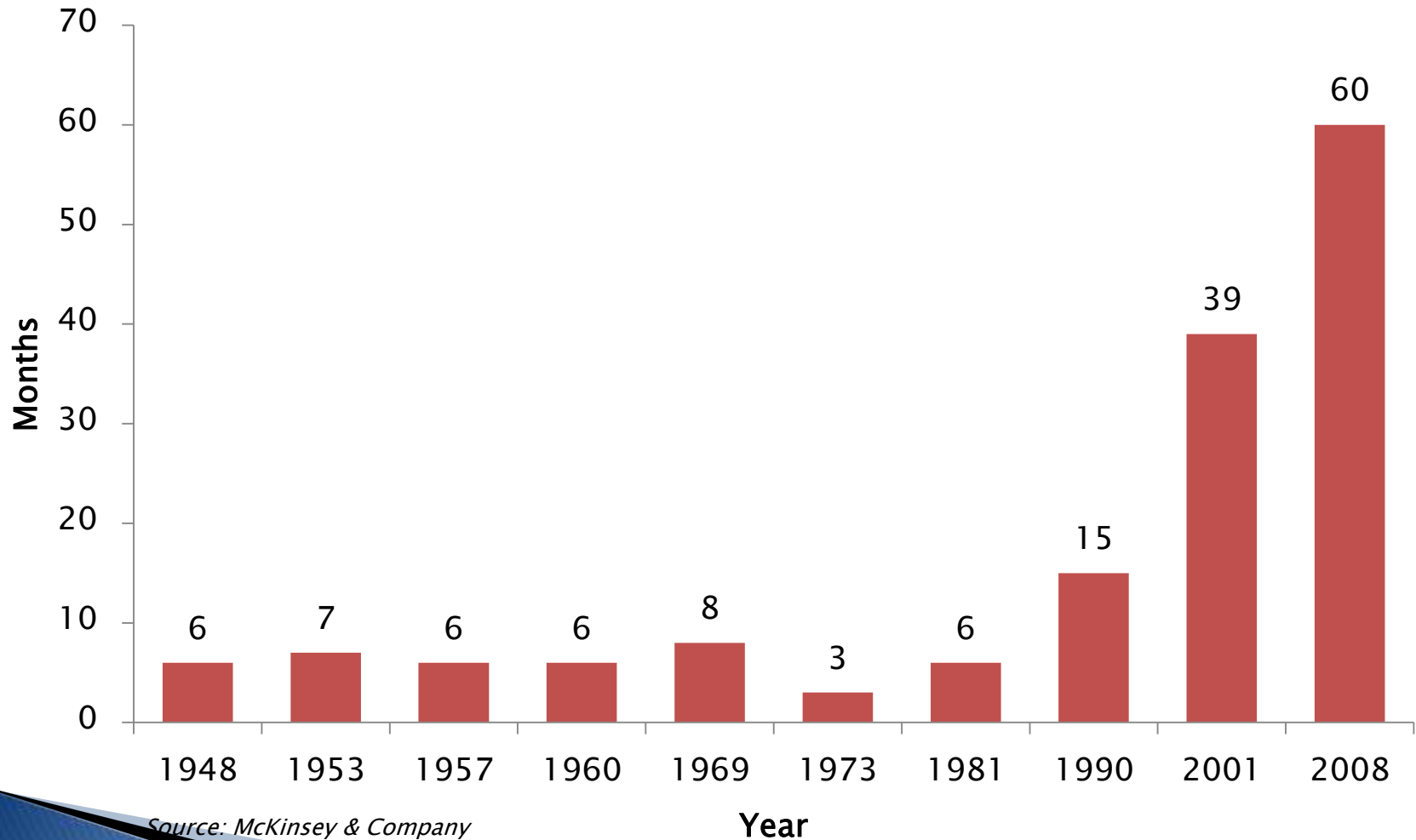
Hawaii's consumer debt per capita ranked 4th highest in the nation in 2010



Source: Federal Reserve Bank of New York, Household Credit Conditions

Job Recovery

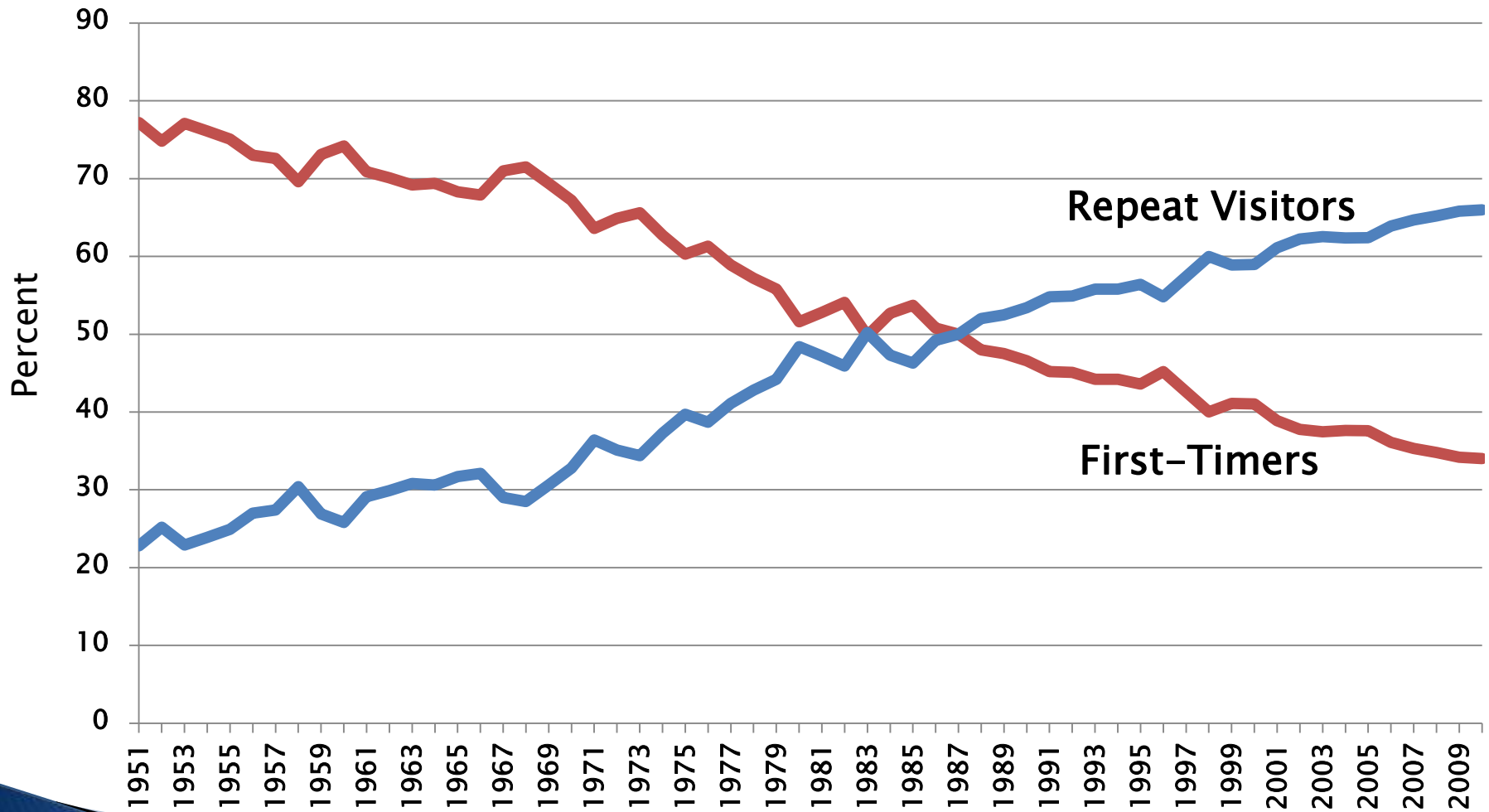
Average number of months to return to pre-recession levels is lengthening



Source: McKinsey & Company

Tourism

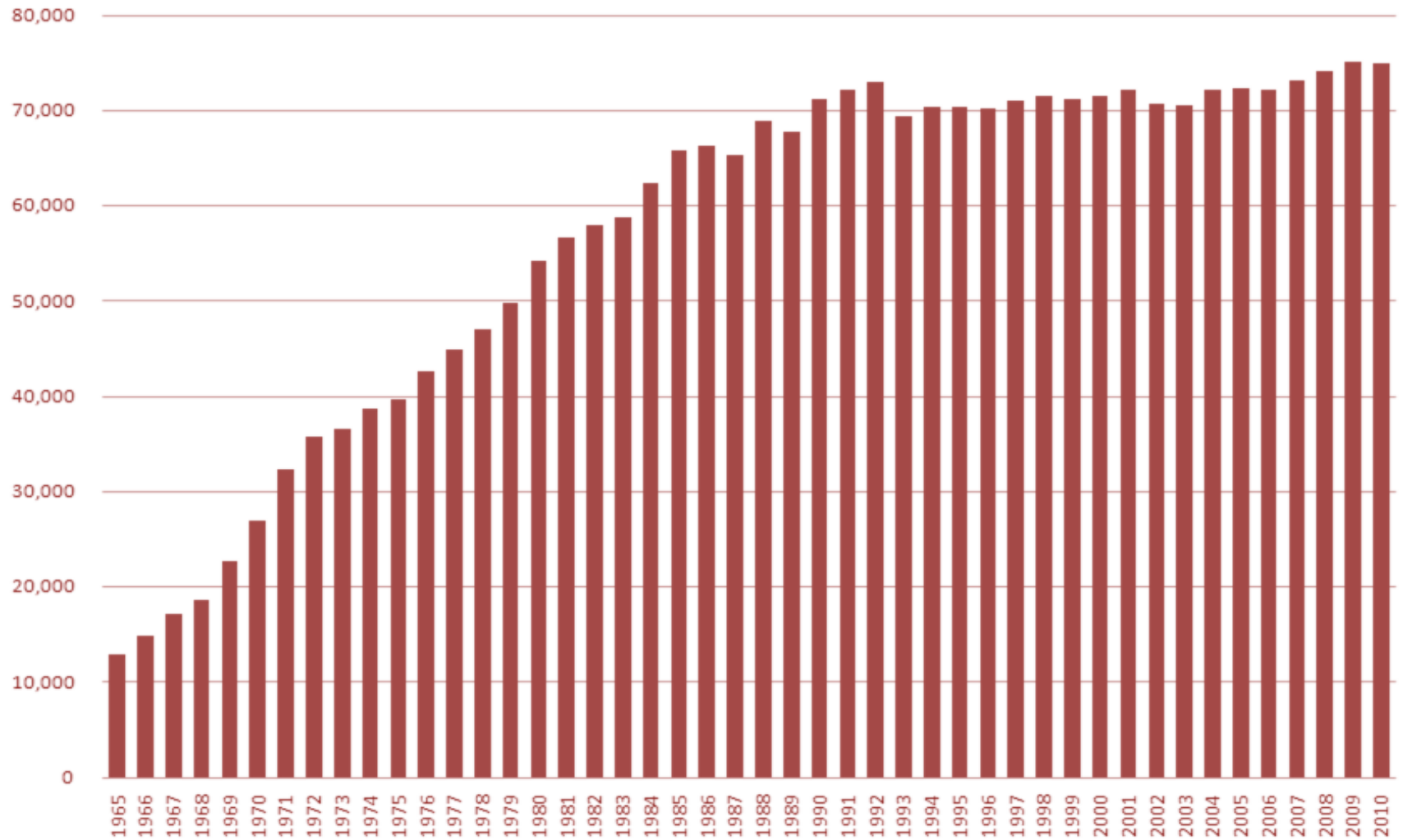
Fewer new visitors are coming to Hawaii



Source: Hawai'i State Department of Business, Economic Development and Tourism

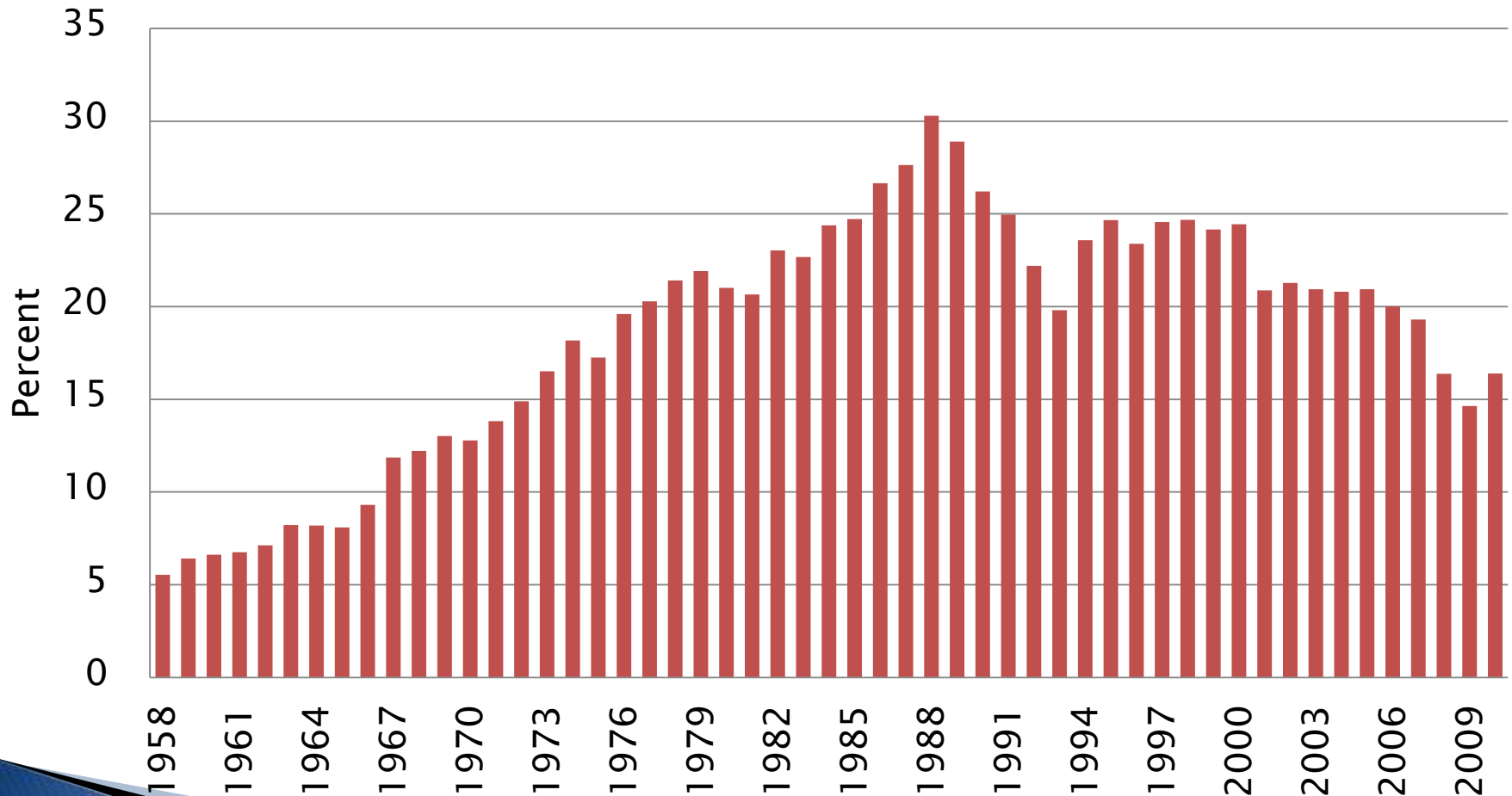
Hotel Inventory Flat

Hawaii Hotel Room Inventory: 1965 - 2010
1965-1990: average annual growth = 7.1%; 1990-2010 = 0.26%



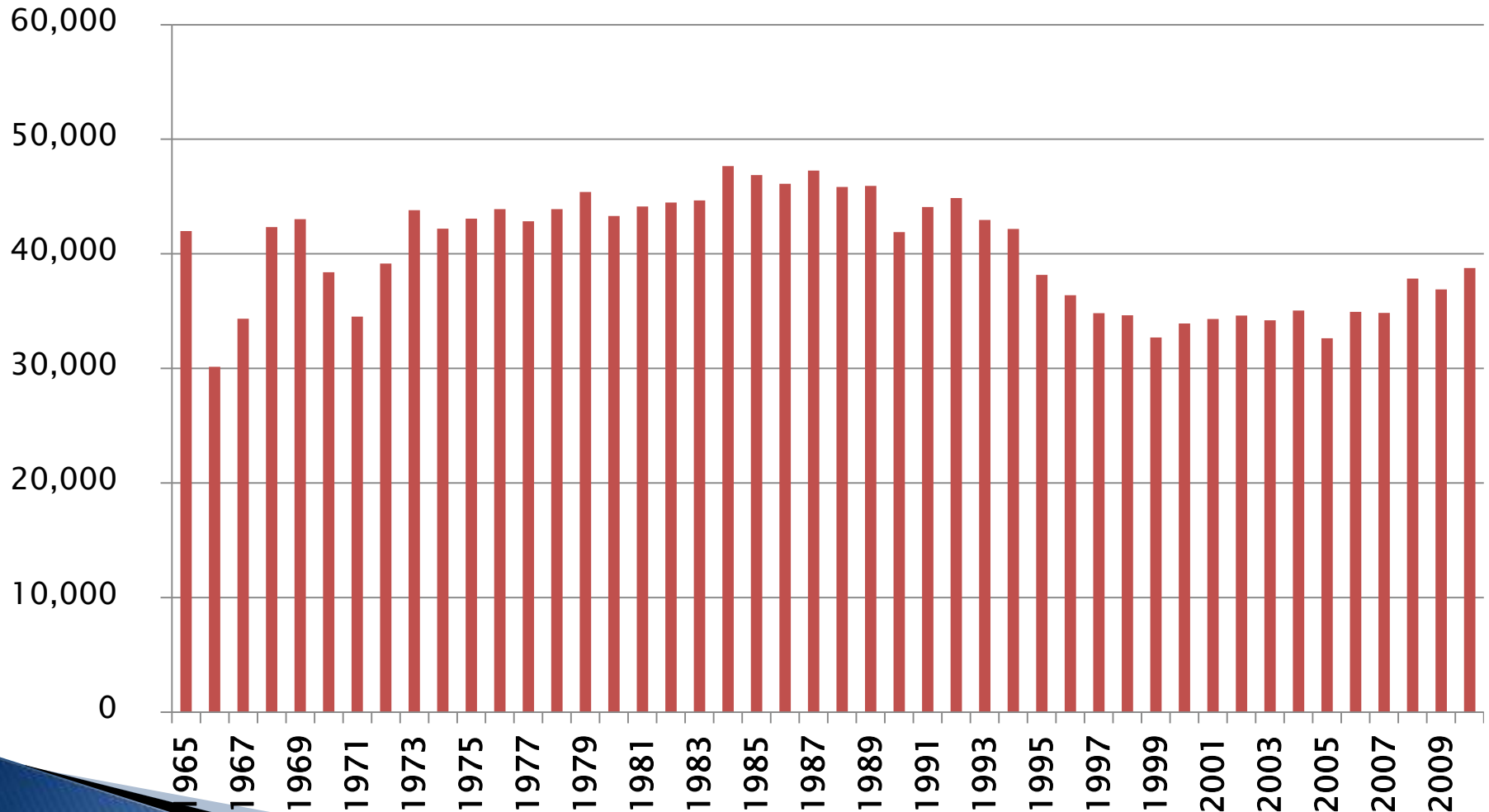
Tourism Spending

Visitor spending as a percent of GDP has been declining during the past 20 years



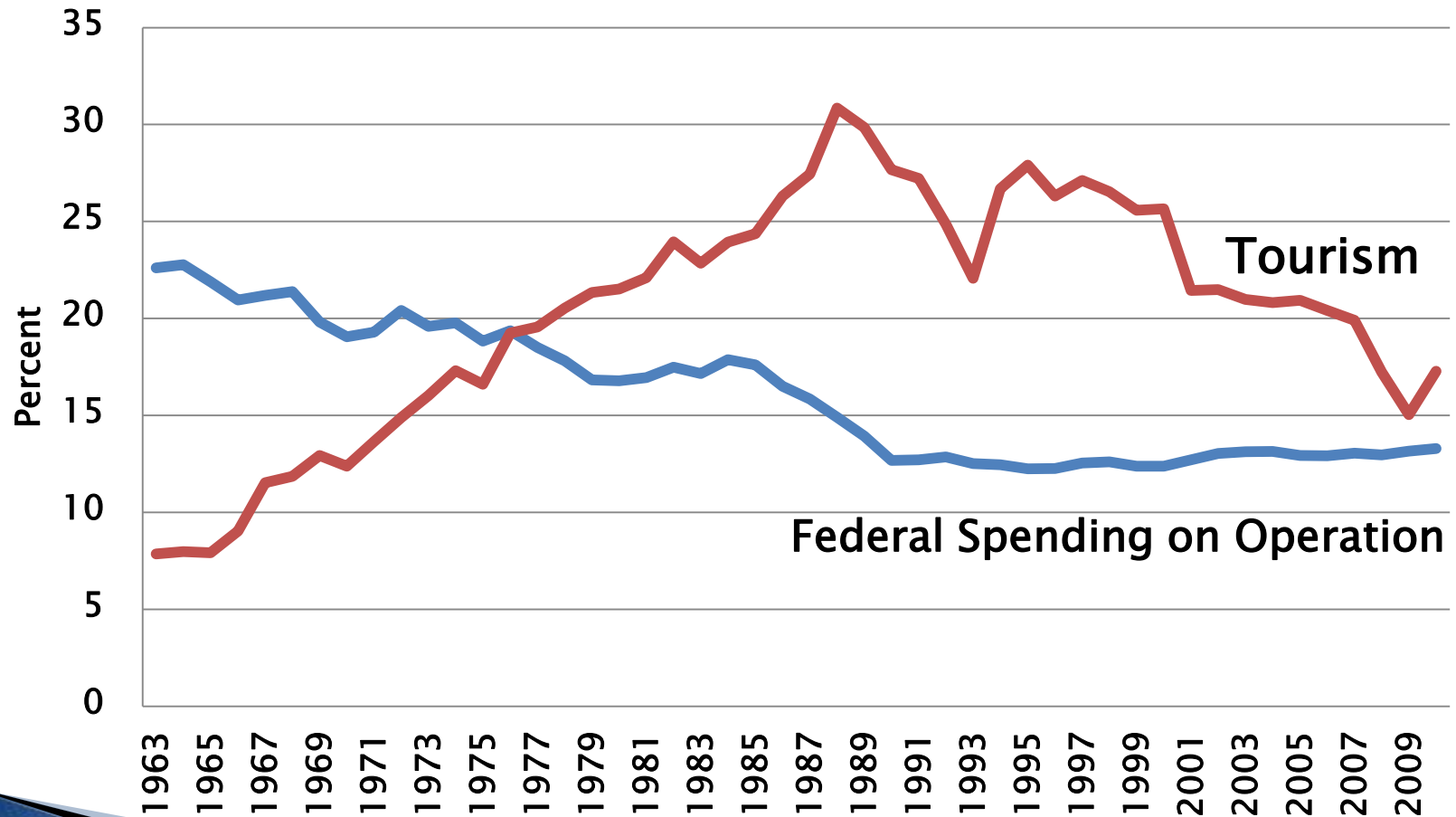
Federal Military Personnel

Number of military personnel stationed in Hawaii has not breached 40,000 members since 1994



Contribution of Tourism and Federal Government to Hawaii's Economy

(as % of total GDP)



Recap

- ▶ Economy on the mend
- ▶ Significant headwinds
- ▶ Need to support tourism
 - Change the mindset from controlling growth to generating growth
- ▶ Can't tax and cut our way to prosperity
- ▶ Need a growth strategy

A New Day in Hawaii

»» The Abercrombie
Administration plan for
sustainable growth

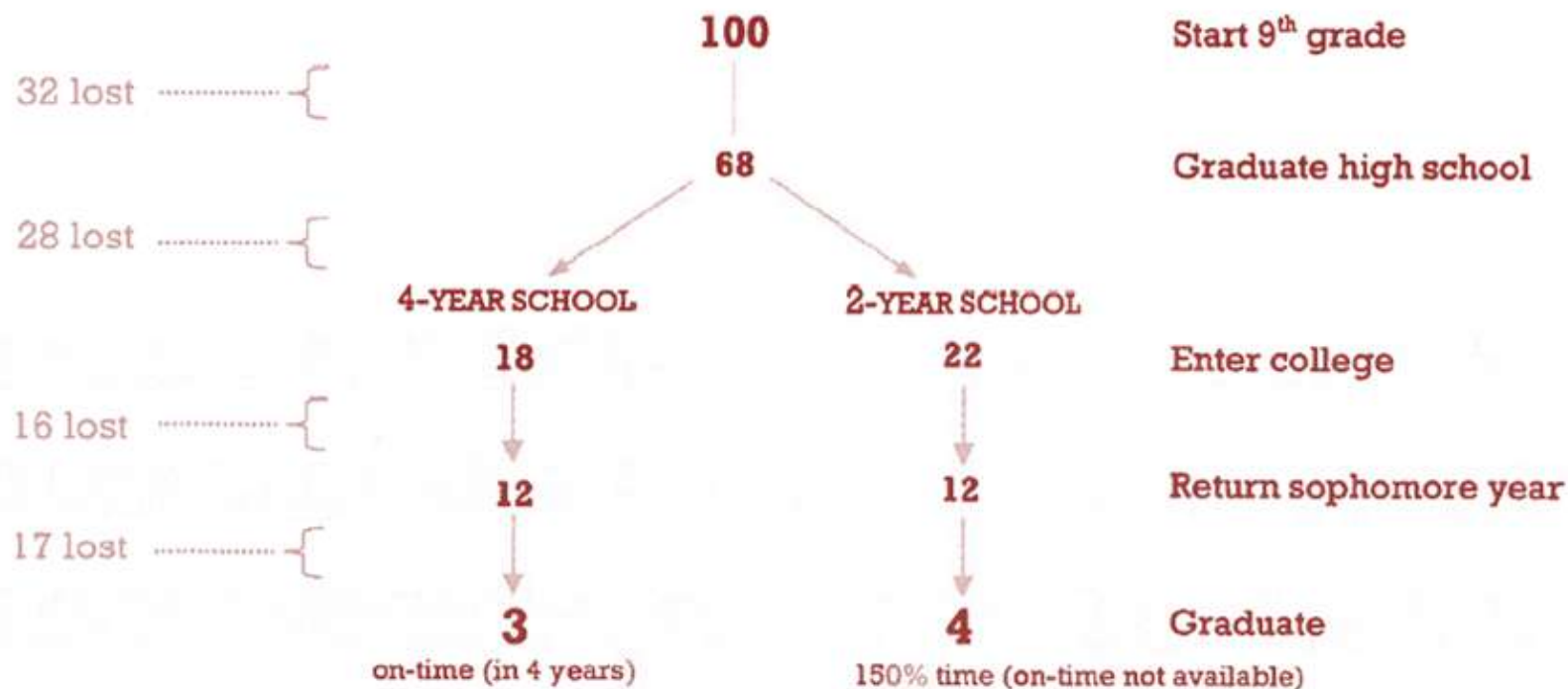
New Day in Hawaii

Foundation for Sustainable Growth

- ▶ Develop a Skilled Work Force
- ▶ Public Lands
- ▶ Build 21st Century Infrastructure
 - Energy
 - Broadband
- ▶ Support Emerging Growth “Industry Clusters”

College Graduation Rate

Too many students get lost along the way, hindering Hawaii's economic growth.³ (This chart models how success rates at each stage impact overall educational attainment. It is not based on longitudinal data, but is an attempt—using a collection of available data—to illustrate the challenges states face.)



Note: Sum of the numbers entering 4-year and 2-year schools may not match combined total due to rounding.

COMPLETE COLLEGE AMERICA

DBEDT's Role

- ▶ Assist in making better use of Public Lands
- ▶ 21st Century Infrastructure
 - Energy – leading role
 - Broadband – co-lead with DCCA
- ▶ Emerging growth industries

690 Pohukaina

Mixed-Use Transit Oriented Development



Current and Upcoming HHFDC Projects

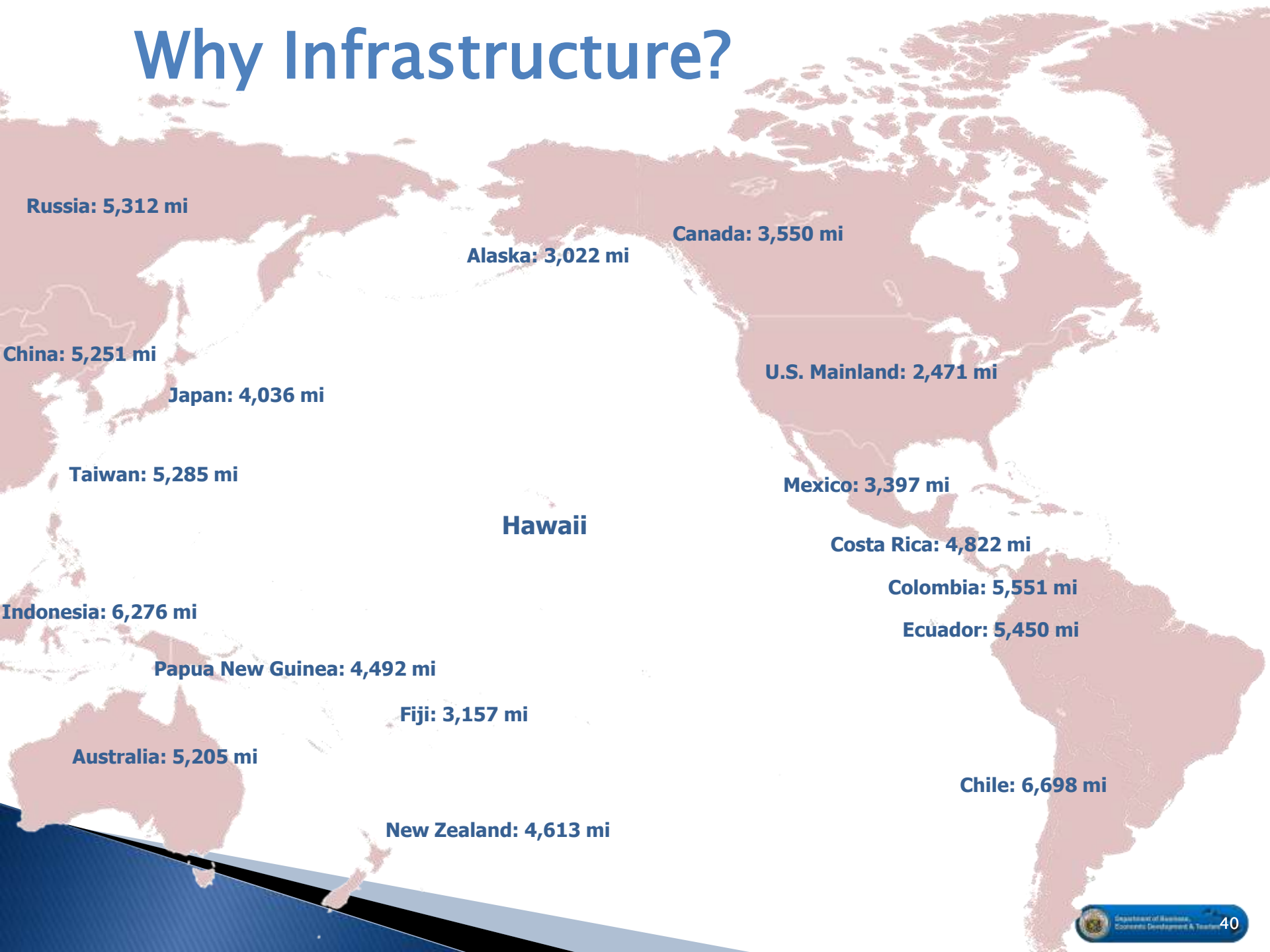
Project	Location	Units	Type	Date	Year	Event
Hale Mohalu II Senior	Pearl City	322	Rental	4/11/2011	2011	Groundbreaking
Kuhio Park Terrace	Honolulu	555	Rental	5/19/2011	2011	Dedication
Kaloko Housing	Kaloko	96	Rental	6/28/2011	2011	Groundbreaking
Seawinds Apartments	Waianae	50	Rental	7/7/2011	2011	Dedication
Kukui Gardens	Honolulu	857	Rental	7/9/2011	2011	Dedication
Franciscan Vistas	Ewa	149	Rental	7/12/2011	2011	Dedication
Ewa Villages	Ewa	140	Rental	7/13/2011	2011	Groundbreaking
Hale Wai Vista II	Waianae	216	Rental	9/29/2011	2011	Dedication
Holomua	Honolulu	176	For Sale	10/6/2011	2011	Groundbreaking
Villas at Maluohai	Kapolei	72	Rental	4th qtr	2011	Dedication
Hale Mohalu II Senior	Pearl City	322	Rental	4th qtr	2011	Groundbreaking
E Komo Mai Apartments	Hilo	45	Rental	1/10/2012	2012	Dedication
Whitmore Circle Apartments	Wahiawa	44	Rental	January	2012	Groundbreaking
Banyan Street Manor	Honolulu	55	Rental	January	2012	Groundbreaking
Mohouli Heights	Hilo	60	Rental	1st qtr	2012	Groundbreaking
Halekauwila Place	Kakaako	204	Rental	1st qtr	2012	Groundbreaking
Kamakana at Keahuolu, Phase 1	Kailua-Kona	1,169	Mixed	1st qtr	2012	Groundbreaking
Kooloaula	East Kapolei	120	Rental	1st qtr	2012	Groundbreaking
Wilikina	Wahiawa	119	Rental	1st qtr	2012	Groundbreaking
Imi Ikena	Wailuku	28	Rental	1st qtr	2012	Groundbreaking
Ewa Villages, Phase 1	Ewa	64	Rental	2nd qtr	2012	Dedication
Hale Makana O Nanakuli	Nanakuli	48	Rental	2nd qtr	2012	Groundbreaking
Senior Residence at Iwilei	Honolulu	160	Rental	2nd qtr	2012	Groundbreaking
Ewa Villages, Phase 2	Ewa	76	Rental	3rd qtr	2012	Groundbreaking
Kahuku Elderly	Kahuku	64	Rental	4th qtr	2012	Groundbreaking
Meheula Vista	Mililani	301	Rental	4th qtr	2012	Groundbreaking

21st Century Infrastructure

Energy : 70% Electrical Gen by 2030
 30% Energy Efficiency
 40% Renewable Energy
 70% Transportation by 2030

Broadband : 1 Gigabit by 2018

Why Infrastructure?

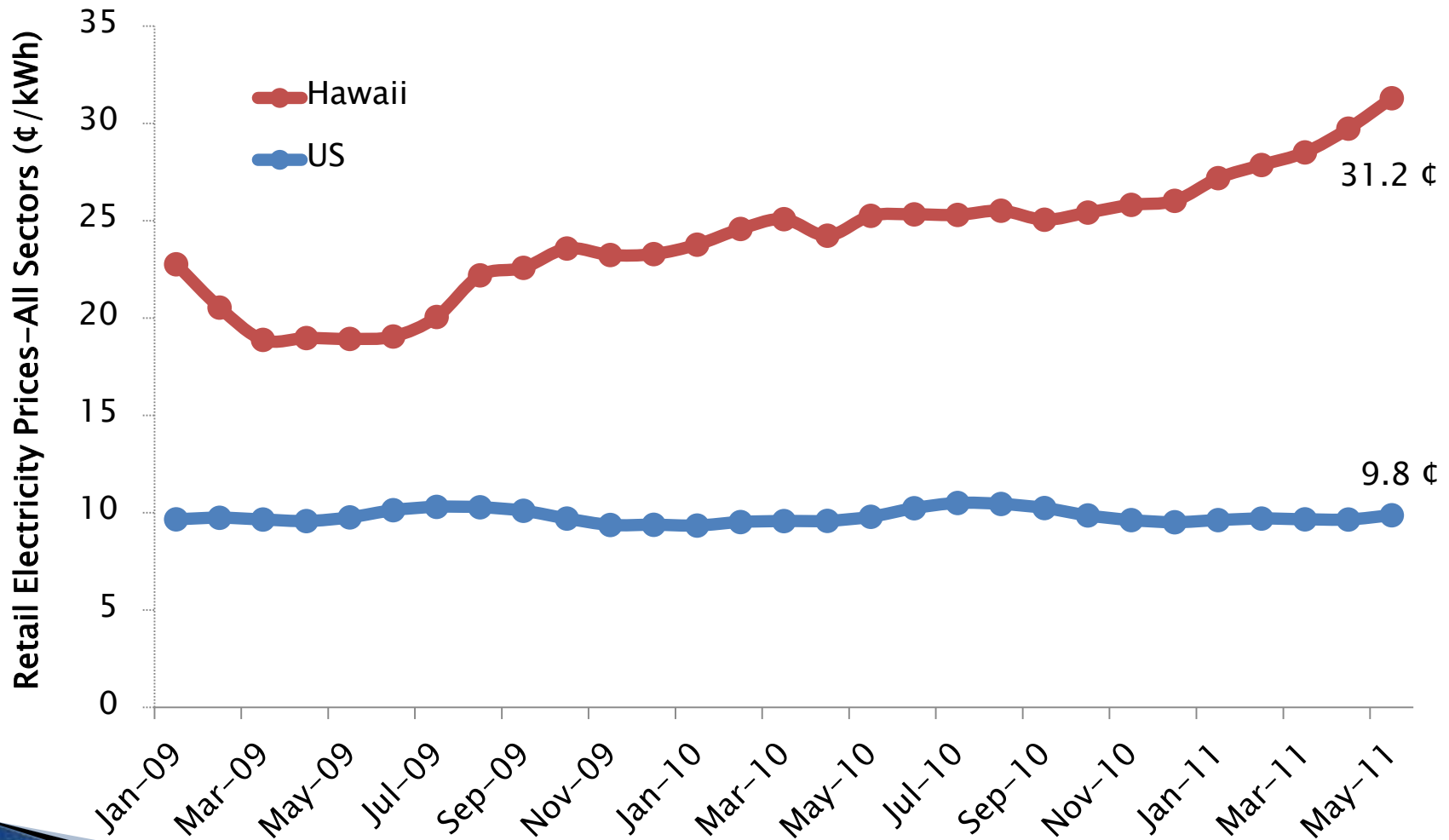


Why Energy?

- ▶ **Energy Security** – Rising oil prices are a hidden tax that could derail the economy
- ▶ **Import substitution** – Money spent on renewables stays in Hawaii
- ▶ **Jobs** – Renewable energy development creates jobs

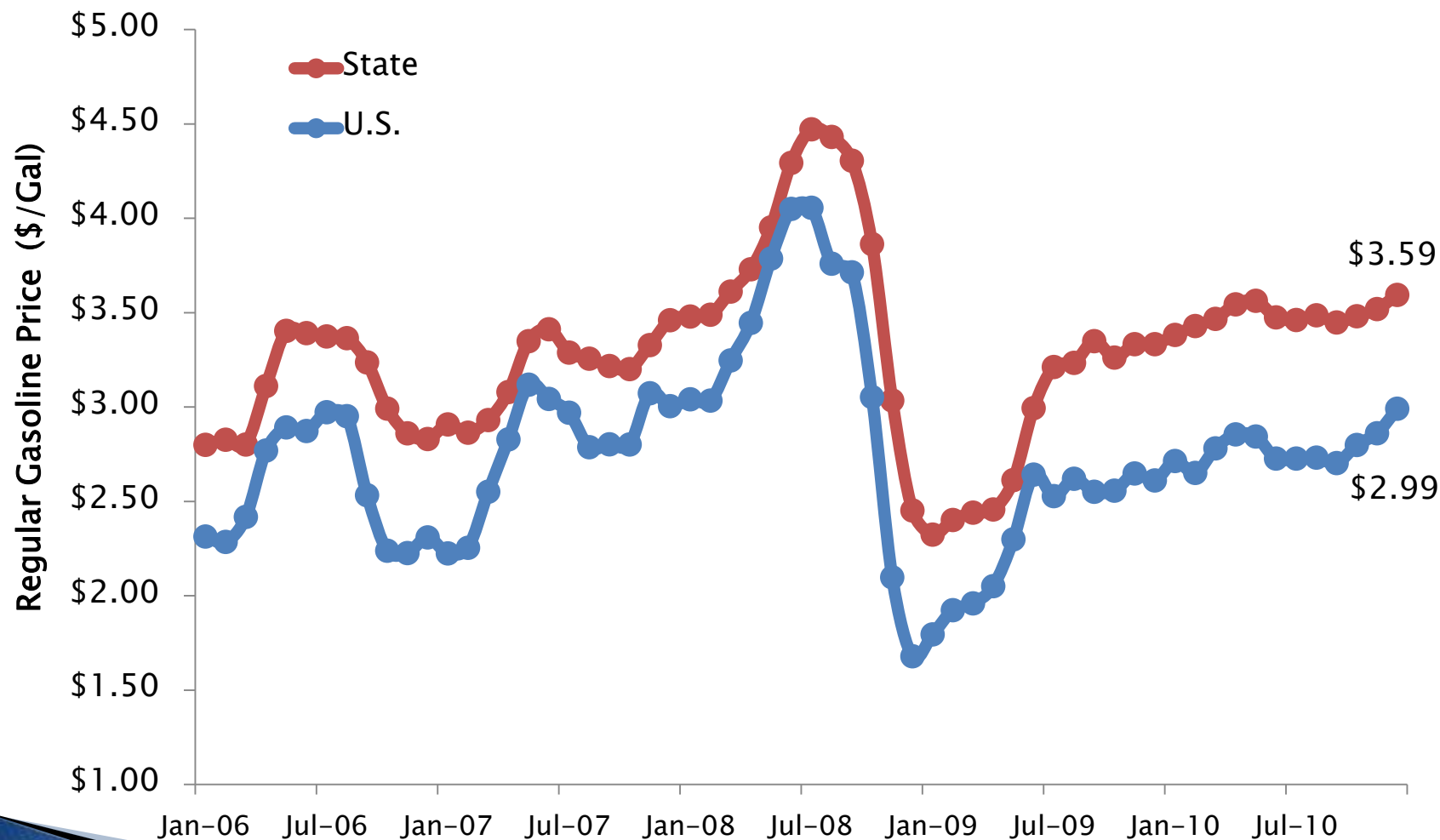
US vs Hawaii Electricity Prices

State electricity prices are currently approximately 20 cents higher than US average



High Gasoline Prices

State regular gasoline prices are approximately 63 cents higher than US average

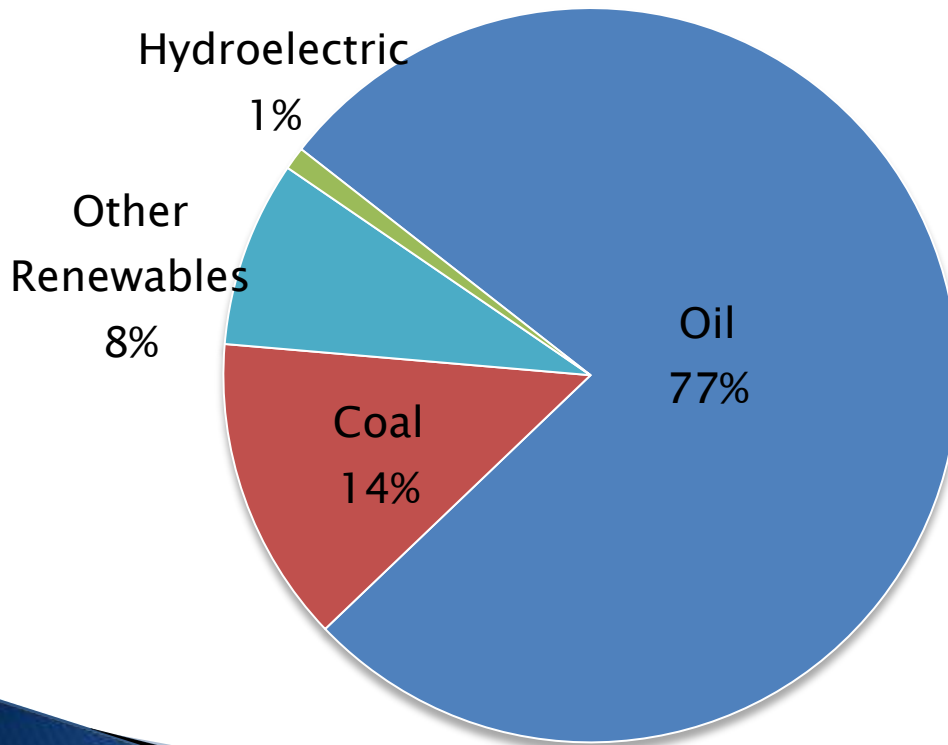


Dependence on Imported Fossil Fuels

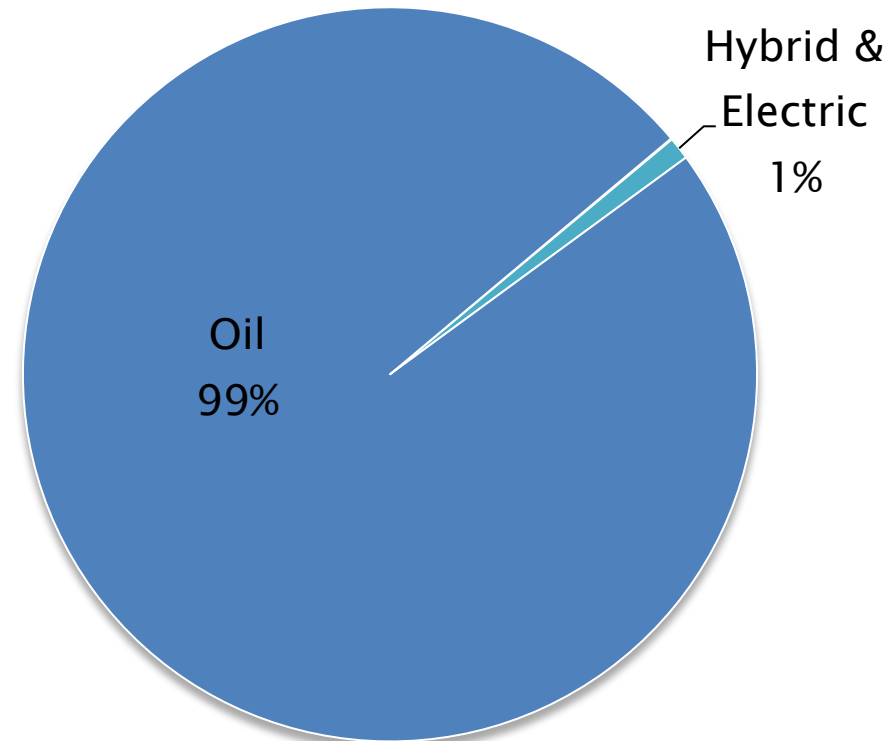
Over 90% of Hawaii's electricity is generated from imported fossil fuels

Over 99% of Hawaii's transportation fuel is fossil based

Electric Generation



Transportation



Progress Compared to Other US States

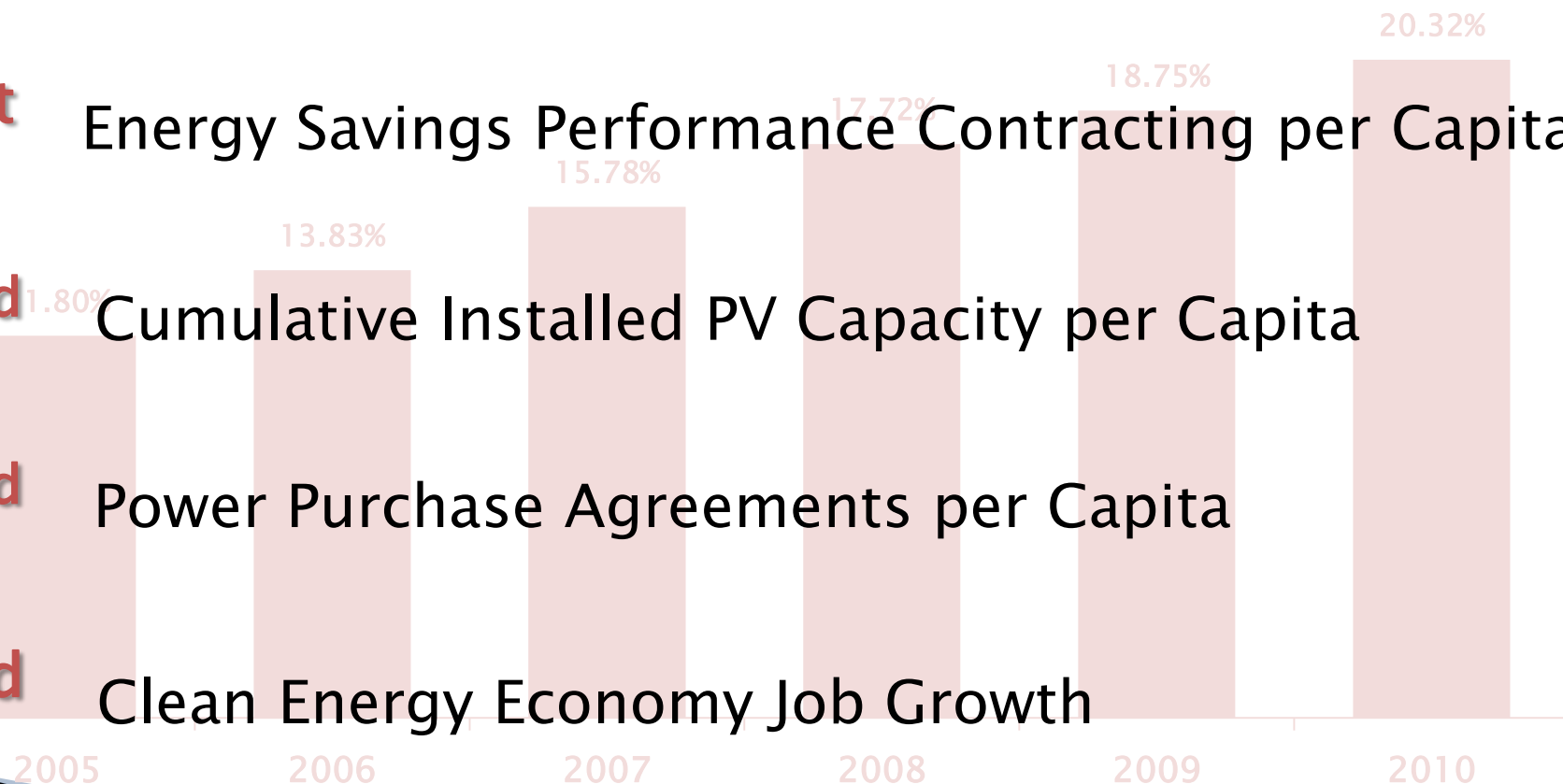
► **1st** Solar Water Heaters per Capita

► **1st** Energy Savings Performance Contracting per Capita

► **2nd** Cumulative Installed PV Capacity per Capita

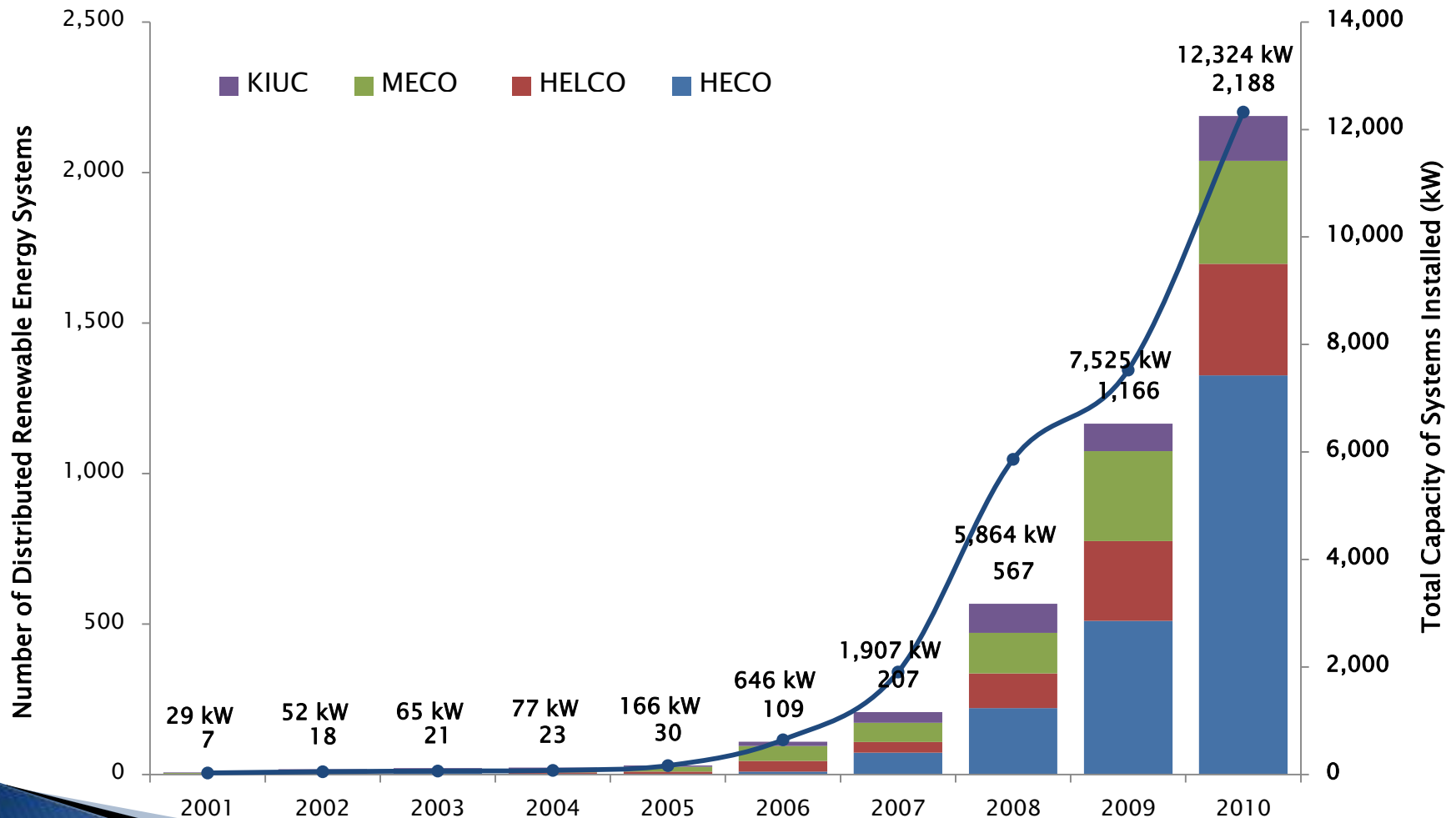
► **2nd** Power Purchase Agreements per Capita

► **3rd** Clean Energy Economy Job Growth



Distributed Renewable Energy Systems

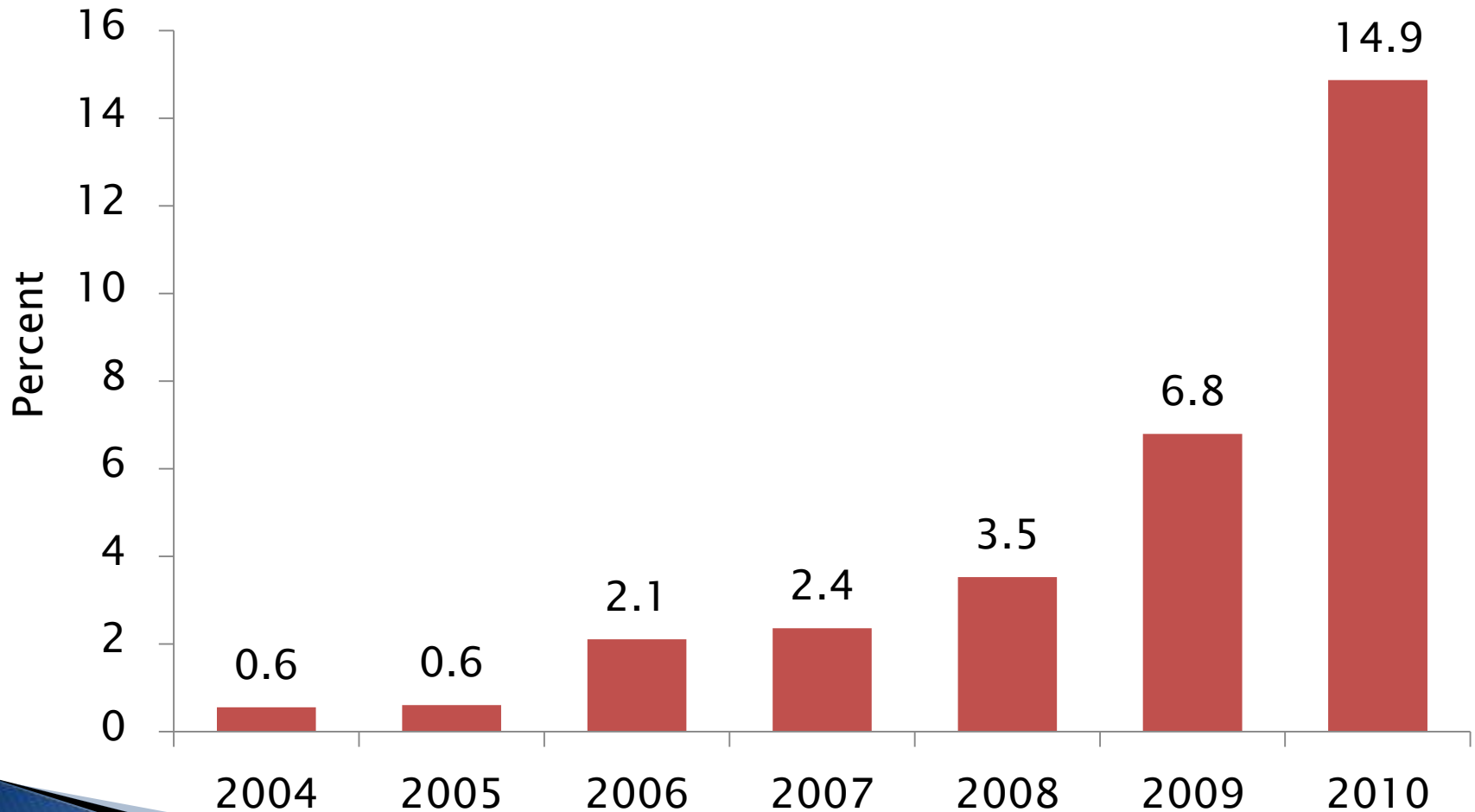
As of 2010, 4,336 distributed renewable energy systems have been installed statewide, totaling 28.7 MW in capacity



Source: *Net Energy Metering Status Reports, 2010* (Public Utilities Commission)

Solar-Related Construction Expenditures

Solar-related construction expenditures reached 15% in 2010

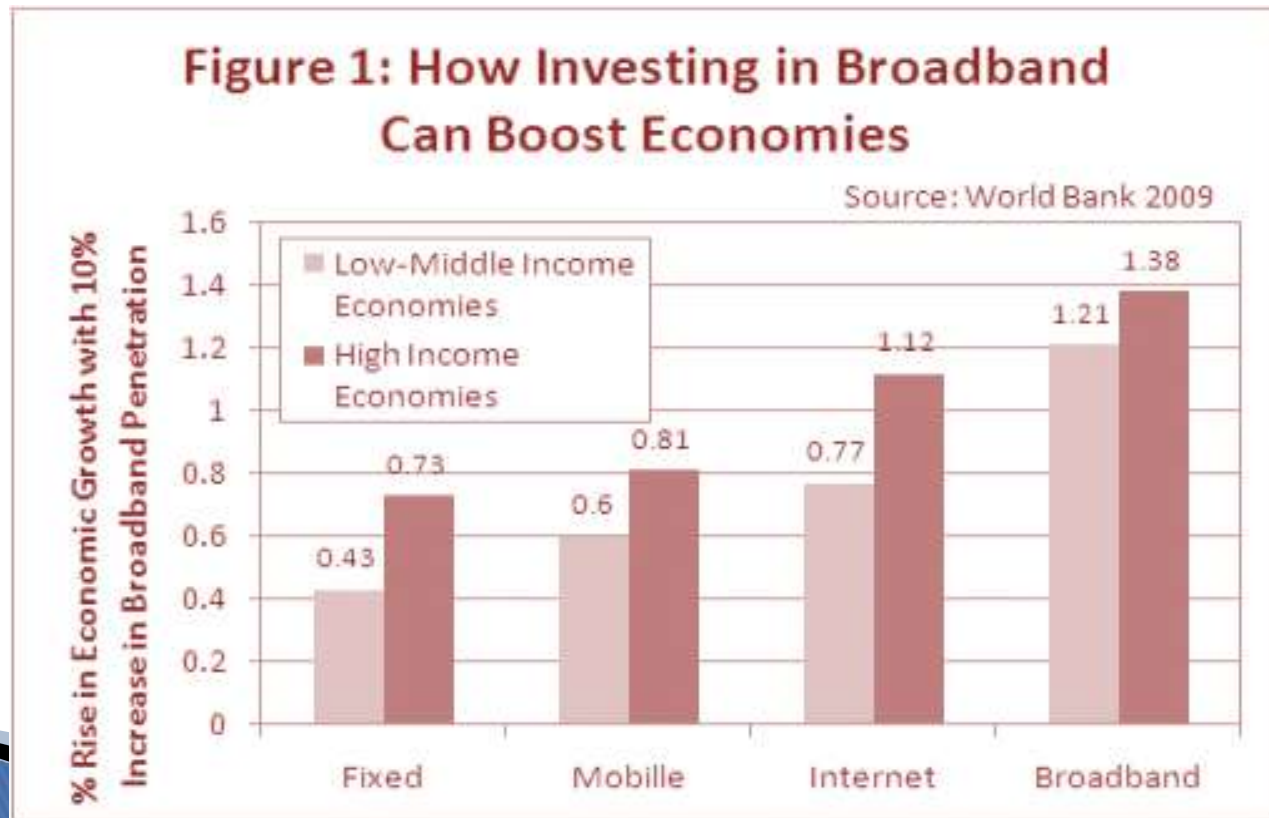


Why Broadband?

- ▶ 21st century infrastructure
- ▶ Boosts economic activity
- ▶ Creates jobs
- ▶ Can you imagine doing business without it?

Economic Benefits of Broadband

- ▶ Faster job growth and higher GDP growth rates
- ▶ Greater employee productivity
- ▶ Benefits greater in low–middle income brackets than in high income



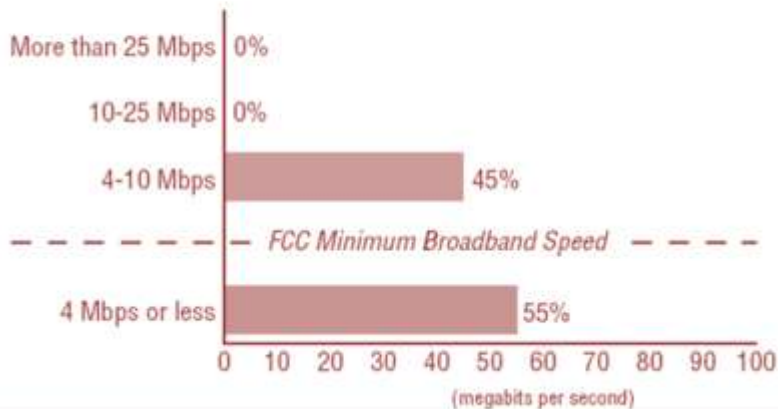
Economic Benefits of Broadband

- ▶ \$5 billion investment in broadband creates 250,000 jobs nationally.
- ▶ 1% increase in broadband penetration, employment expands by nearly 300,000 jobs nationally.
- ▶ Jobs involved in the building and expansion of broadband networks pay 42% more than the average for manufacturing jobs.

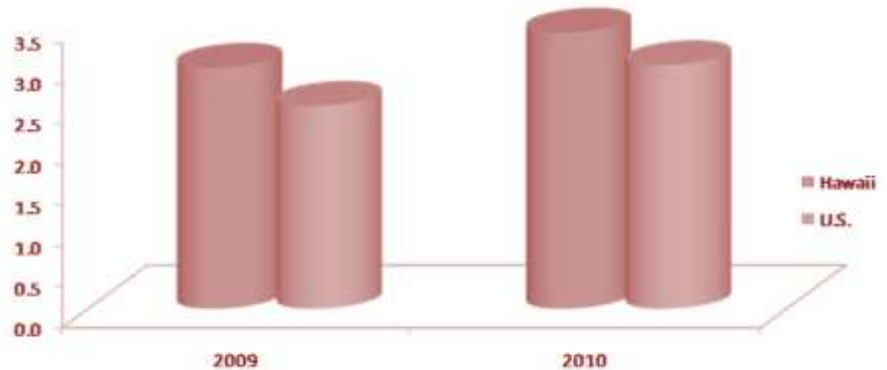
Less than half of Hawaii households meet Federal minimum standards

Most Hawaii Residents Have Slow Speed

% of Hawaii Residents in Each Speed Tier



Average Broadband Internet Download Speed (megabits per second)



Source: Communications Workers of America, Speed Matters

Hawaii Falling Behind

- ▶ U.S. fell from **11th to 17th**
- ▶ **Hawaii ranks 31st** in the nation in internet speed
- ▶ No new transpacific cables
- ▶ U.S. has $\frac{1}{4}$ the speed, for twice the price

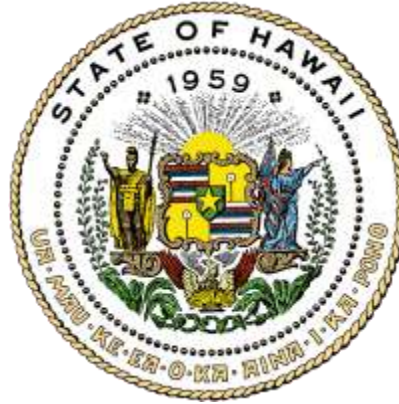
Implications

» Headwinds
Solutions
Call for action

Call for Action

- ▶ Incremental change is not enough
- ▶ Private sector leadership critical – all successful economic transformations in the U.S. have been led by the private sector
- ▶ Need your help





Mahalo

Hawaii State Department of Business
Economic Development & Tourism
www.hawaii.gov/dbedt